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January 27th 2007

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**Correction: Simo Kyllonen**

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# Politics this week

Jan 25th 2007
From The Economist print edition

Reuters

George Bush delivered his annual **state-of-the-union** message to Congress. The president laid out policies on health insurance, immigration, education and energy, where he presented a plan to reduce petrol consumption in America by 20% over the next ten years. See article

Mr Bush also sought support for his plan to send more **troops to Iraq**, arguing that, should America retreat, the result would be a "nightmare scenario" in Iraq and surrounding countries. The Senate Foreign Relations Committee promptly responded by voting against the plan, arguing it was "not in the national interest" of the United States.

The House of Representatives finished passing all the bills that comprised the Democrats' "**100 hour**" agenda, with plenty of time to spare. However, the proposal to increase the federal **minimum wage** was stalled in the Senate when Republicans insisted on adding tax breaks for small businesses to help cover the cost of the wage increase. See article

**Hillary Clinton** made it official by declaring "I'm in, and I'm in to win" the race for president in 2008. Also throwing his hat into the ring was **Bill Richardson**, the Democratic governor of New Mexico. **John Kerry**, the loser in the 2004 election, said no thanks and confirmed he would not run this time. On the Republican side, **Sam Brownback**, a senator from Kansas and a champion of social conservatives, announced his candidacy. See article

## Lost in space

Twelve days after testing an anti-satellite weapon by blowing up one of its own satellites in space, **China** admitted it had done so. It denied it had any intention of joining the arms race in space that its critics feared it had started. See article

The **Philippines** armed forces said they had proof that human remains found on the southern island of Jolo last month were those of Khaddafy Janjalani, leader of the Abu Sayyaf, a brutal group of Islamic separatists. See article

At least 16 people died in a shoot-out on the **Indonesian** island of Sulawesi, where police were detaining alleged members of the Jemaah Islamiah, an Islamic militant group.

A suicide-bomber killed at least ten people outside a military base housing NATO soldiers near Khost, in eastern **Afghanistan**. Most of the dead were Afghans employed at the base.

Vladimir Putin, Russia's president, arrived in **India** for talks expected to yield agreements on arms sales and on co-operation in nuclear and other forms of energy.

## A coming together

Getty Images Europe

Thousands of Turks, some with banners declaring "We are all Armenians", marched to the funeral in Istanbul of Hrant Dink, a Turkish-Armenian journalist murdered last week, apparently for "insulting Turkishness". Attending the funeral were ministers from both **Turkey** and **Armenia**. Turkey denies committing genocide against the Armenians in 1915. See article

The ultra-nationalist Serbian Radical Party, whose leader is on trial at The Hague accused of war crimes, won most votes in **Serbia's** general election. But its vote was outweighed by the tally of the two main moderate parties, who are likely to form a pro-Europe coalition government. See article

A European Parliament committee concluded that EU countries, including Britain and Germany, were aware of the abduction of **terror suspects** by the CIA. The committee criticised EU officials, among them foreign-policy chief Javier Solana, for not co-operating in its investigation.

The **European Union**, in bilateral talks with **China**, said it would continue its arms embargo, imposed after the Tiananmen Square killings of 1989, until China ratified a UN convention on human rights, freed those jailed in connection with Tiananmen Square and ended the “re-education through labour” system of imprisonment without trial.

## More stick, less carrot

The **Iraqi** prime minister, Nuri al-Maliki, has apparently decided, at last, to try to rein in the Shia militias responsible in large part for the continuing rash of sectarian murders in Baghdad. At least 600 members of the Mahdi Army, the biggest militia, have been arrested in the past few weeks. Meanwhile, Sunni insurgents continued to kill hundreds of Shias with bomb attacks in crowded places in Baghdad and towns nearby. See article

**Israel's** attorney-general said he intends to charge the president, Moshe Katsav, with rape. Mr Katsav accused the media of hounding him; his lawyers will try to stop the charges being brought. Meanwhile, a parliamentary panel approved a request by the president for a three-month leave of absence.

The prospect of civil strife in **Lebanon** loomed as demonstrations in Beirut, led by the Shias' Hizbullah movement against the pro-Western coalition government of Fouad Siniora, turned nasty, leaving at least three dead. But the government refused to step down or accept the opposition's demands for a veto-wielding minority of ministers in the government. See article

**Ethiopia's** government said its troops had started to leave **Somalia** a month after helping to defeat Islamist militias that had taken over the south of the country. Meanwhile, America made another air strike in southern Somalia, reportedly targeting al-Qaeda operatives.

Security forces in **Guinea** killed some 30 people in clashes with protesters calling for the ailing president, Lansana Conté, to resign. See article

## How to break a cartel

Reuters

**Mexico's** new government extradited 15 alleged drug traffickers to face charges in the United States. They included Osiel Cárdenas, the leader of the “Gulf Cartel”. The extraditions are part of a wider crackdown against organised crime. See article

**Brazil's** government announced a long-awaited package of tax breaks and public-spending measures aimed at boosting the country's lacklustre rate of economic growth. Private business said the measures were in the right direction, but too timid. See article

**Bolivia's** socialist president, Evo Morales, marked his first year in office by promising to raise taxes on foreign mining-firms and to speed up land reform. He also reshuffled his cabinet, replacing several indigenous leaders with left-wing activists.

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# Business this week

Jan 25th 2007
From The Economist print edition

**Pfizer**, the world's biggest drugs firm, said it would cut almost 8,000 jobs (on top of 2,000 announced last month) and close several manufacturing and research facilities as part of a restructuring effort. The closures include the production site in Brooklyn where Pfizer was founded in 1849. The patent on Pfizer's biggest-earning drug is due to expire in 2010; a potential blockbuster was cancelled last year; and Pfizer, like its rivals, faces a struggle to come up with new money-spinners and growing competition from makers of generic drugs. See article

**MAN**, a German truckmaker, dropped its *euro*10.5 billion ($13.7 billion) hostile bid for **Scania**, a Swedish rival. The offer had been opposed by Scania's two largest shareholders, Volkswagen and the investment arm of Sweden's Wallenberg family, since it was launched last autumn. Ferdinand Piëch, the chairman of VW (which is also MAN's biggest investor), pressed for friendly merger talks instead. See article

## It's up to you, New York

A report commissioned by New York's leading politicians, including its mayor, Michael Bloomberg, gave warning that the city's status as the world's foremost financial centre was under threat. It said that up to 7% of the American market in **global financial services** could be lost to foreign competitors over the next five years. The report proffered various recommendations to help the city avoid this fate, chief of which was clearer guidance on the regulatory structure that has been in place since the Sarbanes-Oxley act.

**Citigroup** reported that net income had fallen by 12% in 2006, to $21.5 billion. The financial giant also parted company with Todd Thomson, its head of global wealth management, and is replacing him with Sallie Krawcheck, currently chief financial officer. See article

Other big American banks also reported yearly results. **Bank of America's** net profit rose by 28% in 2006, to $21.1 billion, boosted in part by its acquisition of MBNA, a credit-card issuer, at the beginning of the year. And net income at **Wachovia** increased by 17%, to $7.8 billion, as it booked the benefits of integrating two banks, Golden West and Westcorp, it bought recently.

## A change of style?

Paul Pressler resigned as chief executive of **Gap**. The clothing retailer has seen its sales droop over the past two years and is reviewing a number of options for its brands. Speculation has centred on a buy-out of the company. Robert Fisher, whose parents founded Gap in 1969, replaces Mr Pressler in the interim.

**Sun Microsystems** made a surprise quarterly profit (its first for a year and a half) as sales of its Solaris 10 operating system took off. Sun also laid its differences with **Intel** to rest by proclaiming a strategic alliance, which includes the use of Intel's Xeon chips in some of Sun's servers. The news came at a bad time for Intel's arch-rival **Advanced Micro Devices**. The chipmaker confirmed that a price war was damaging its business when it reported a quarterly net loss of $574m.

The share price of **Alcatel-Lucent** plunged by more than 8% after the Franco-American company forecast that fourth-quarter profit would be flat. Alcatel's merger with Lucent, completed two months ago, created the second-biggest provider of networking equipment, but there has been a delay in combining product lines, causing some customers to turn elsewhere.

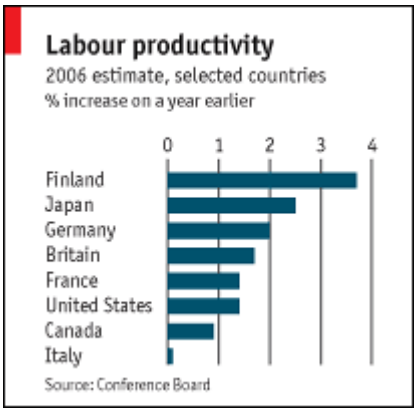
**EBay** reported solid revenue growth in the fourth quarter in its core auction and sales businesses, partly due to people trading game consoles in the run up to Christmas. Its share price, which has been languishing of late, soared. Revenue at Skype jumped by 164%, but eBay admitted that the benefits of acquiring the internet-calling business in 2005 had yet to be seen.

The **price of oil** jumped by some 5% after George Bush outlined a plan in his speech to Congress to double the size of America's strategic reserves by 2027. A few days earlier the price had fallen, briefly, to below $50 a barrel for the first time since May 2005.

Amid all the glad-handing and schnapps at the World Economic Forum in Davos, the prospect was raised of an effort to revive the stalled **Doha round** of trade talks. A meeting was called between trade officials from rich and poor countries to boost confidence in the process, which led to hopes of a new timetable. See article

## Lagging behind

America's **labour** productivity growth rate in 2006 was the lowest for more than a decade, according to a study by the Conference Board. Although productivity growth rates were higher in most of Europe and Japan, the report suggested there would be future diminishing returns worldwide from investments in information and communication technology.

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Climate change

# The greening of America

Jan 25th 2007
From The Economist print edition

**How America is likely to take over leadership of the fight against climate change; and how it can get it right**

A COUNTRY with a presidential system tends to get identified with its leader. So, for the rest of the world, America is George Bush's America right now. It is the country that has mismanaged the Iraq war; holds prisoners without trial at Guantánamo Bay; restricts funding for stem-cell research because of fundamentalist religious beliefs; and destroyed the chance of a global climate-change deal based on the Kyoto protocol.

But to simplify thus is to misunderstand—especially in the case of huge, federal America. One of its great strengths is the diversity of its political, economic and cultural life. While the White House dug its heels in on global warming, much of the rest of the country was moving (see article). That's what forced the president's concession to greens in the state-of-the-union address on January 23rd. His poll ratings sinking under the weight of Iraq, Mr Bush is grasping for popular issues to keep him afloat; and global warming has evidently become such an issue. Albeit in the context of energy security, a now familiar concern of his, Mr Bush spoke for the first time to Congress of "the serious challenge of global climate change" and proposed measures designed, in part, to combat it.

## Hot for the time of year

It's the weather, appropriately, that has turned public opinion—starting with Hurricane Katrina. Scientists had been warning Americans for years that the risk of "extreme weather events" would probably increase as a result of climate change. But scientific papers do not drive messages home as convincingly as the destruction of a city. And the heatwave that torched America's west coast last year, accompanied by a constant drip of new research on melting glaciers and dying polar bears, has only strengthened the belief that something must be done.

Business is changing its mind too. Five years ago corporate America was solidly against carbon controls. But the threat of a patchwork of state regulations, combined with the opportunity to profit from new technologies, began to shift business attitudes. And that movement has gained momentum, because companies that saw their competitors espouse carbon controls began to fear that, once the government got down to designing regulations, they would be left out of the discussion if they did not jump on the bandwagon. So now the loudest voices are not resisting change but arguing for it.

Support for carbon controls has also grown among some unlikely groups: security hawks (who want to reduce America's dependence on Middle Eastern oil); farmers (who like subsidies for growing the raw material for ethanol); and evangelicals (who worry that man should be looking after the Earth God gave him a little better). This alliance has helped persuade politicians to move. Arnold Schwarzenegger, California's Republican governor, has led the advance, with muscular measures legislating Kyoto-style curbs in his state. His popularity has rebounded as a result. And now there is movement too at the federal level, which is where it really matters. Since the Democrats took control of Congress after the November mid-term elections, bills to tackle climate change have proliferated. And three of the serious candidates for the presidency in 2008—John McCain, Hillary Clinton and Barack Obama—are all

pushing for federal measures.

## Europe's good, and bad, example

Unfortunately, Mr Bush's new-found interest in climate change is coupled with, and distorted by, his focus on energy security. Reducing America's petrol consumption by 20% by 2017, a target he announced in the state-of-the-union address, would certainly diminish the country's dependence on Middle Eastern oil, but the way he plans to go about it may not be either efficient or clean. Increasing fuel-economy standards for cars and trucks will go part of the way, but for most of the switch America will have to rely on a greater use of alternative fuels. That means ethanol (inefficient because of heavy subsidies and high tariffs on imports of foreign ethanol) or liquefied coal (filthy because of high carbon emissions).

The measure of Mr Bush's failure to tackle this issue seriously is his continued rejection of the only two clean and efficient solutions to climate change. One is a carbon tax, which this paper has long advocated. The second is a cap-and-trade system of the sort Europe introduced to meet the Kyoto targets. It would limit companies' emissions while allowing them to buy and sell permits to pollute. Either system should, by setting a price on carbon, discourage its emission; and, in doing so, encourage the development and use of cleaner-energy technologies. Just as America's adoption of catalytic converters led eventually to the world's conversion to lead-free petrol, so its drive to clean-energy technologies will ensure that these too spread.

A tax is unlikely because of America's aversion to that three-letter word. Given that, it should go for a tough cap-and-trade system. In doing so, it can usefully learn from Europe's experience. First, get good data. Europe failed to do so: companies were given too many permits, and emissions have therefore not fallen. Second, auction permits (which are, in effect, money) rather than giving them away free. Europe gave them away, which allowed polluters to make windfall profits. This will be a huge fight; for, if the federal government did what the Europeans did, it would hand out $40 billion-50 billion in permits. Third, set a long time-horizon. Europeans do not know whether carbon emissions will still be constrained after 2012, when Kyoto runs out. Since most clean-energy projects have a payback period of more than five years, the system thus fails to encourage green investment.

One of America's most admirable characteristics is its belief that it has a duty of moral leadership. At present, however, it's not doing too well on that score. Global warming could change that. By tackling the issue now it could regain the high moral ground (at the same time as forging ahead in the clean-energy business, which Europe might otherwise dominate). And it looks as though it will; for even if the Toxic Texan continues to evade the issue, his successor will grasp it.

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Turkey and the Armenians

# How to honour Hrant

Jan 25th 2007
From The Economist print edition

**The best tribute for a brave journalist would be a change in the law**

AFP

FOR those who care about Turkey, and its prospects of a European future, these are roller-coaster days. The country's well-wishers were shocked to the core by the assassination of a brave editor, Hrant Dink. Unbowed by a flawed judicial system and a crescendo of death threats, Mr Dink paid with his life for his efforts to make his fellow Turkish citizens, and his fellow ethnic Armenians, think anew about the horrors that unfolded in the final years of the Ottoman era.

But the public reaction to the murder, and the sight of 100,000 people walking through Istanbul to his funeral, affirmed one of the truths that Mr Dink upheld. Whatever fiery nationalists of any sort might claim, Turkey has never been a country of angels who can do no serious wrong, nor a nation of demons from which nothing good can come. Any honest look at history's hardest questions must start from there.

The same thought must surely have occurred to some Armenians from other places who went to Turkey, many for the first time, for this week's funeral. The fate of their forebears who endured death marches through Anatolia does not tell the whole story of relations between the Turks and the Armenians: the story has noble pages as well as black ones, and Mr Dink believed that both should be read. He was right.

If that history really is to be discovered, the least helpful thing a state can do is penalise those who question the official version. It is wrong to prosecute those who accept the view expressed by many contemporary observers: that in 1915, the authorities did not just relocate hundreds of thousands of Armenians, they tried to make sure most of them died. And it is just as bad to prosecute those who deny the Armenians suffered genocide, as a new French law would do. Even against deniers of the Nazi holocaust, argument is a better weapon than heavy-handed law (see article).

There are clearly plenty of Turkish citizens who agree with all this: that was the message of hope from Mr Dink's funeral. It is not the first time that a display of Turkey's worst side has prompted a huge show of “people power” by ordinary citizens. A decade ago, when a car crash exposed links between the security forces and the criminal underworld, millions of Turks protested. What such demonstrations highlight is the irrelevance of much of Turkey's formal political debate to its real dilemma: will its future be shaped by the freely expressed will of its citizens—as behoves a candidate member of the European Union—or by more shadowy forces such as extreme nationalism or an uncontrolled state? Whatever the setbacks, hope for the better way is very much still alive.

But if Mr Dink is to be honoured in death, popular indignation will not suffice. Recep Tayyip Erdogan, Turkey's moderate Islamist prime minister, should rescind Article 301 of the penal code which outlaws “insults to Turkishness”. This sinister provision in a new code, which was supposed to modernise Turkey's legal system, has been a huge step backwards. It gives fanatics the chance to haul before the courts some of Turkey's best journalists, including Mr Dink, as well as writers and scholars. Worse, noisy prosecutions have exposed many people to the rage of hotheads whose reaction to straight talk about history is to reach for their guns.

It will take courage to reverse Article 301. But the murder of a man of principle has created a new climate in which things previously inconceivable become imperative. Mr Erdogan's European friends will cheer if he seizes the moment.

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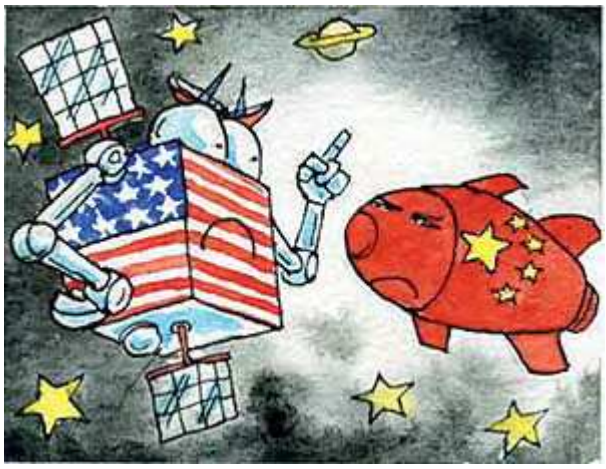
China's anti-satellite test

# A new arms race in space?

Jan 25th 2007
From The Economist print edition

**There are better ways to manage China's space rivalry with America**

David Simonds



IF THERE is to be a new arms race in space, China will be in it. Its belated admission that earlier this month it destroyed one of its own satellites—blowing it to smithereens by slamming a ballistic missile into it over 500 miles (800km) up in space—is China's way of saying that it will cede control of space to no one. The feat itself was not particularly impressive: both the United States and the then Soviet Union carried out similar space tests more than 20 years ago. But shooting down its own satellite shows that China could now blast someone else's out of the sky, too (see article). Putting its marker in the heavens in this way reflects badly on China as a terrestrial power. Yet its poor space etiquette could be turned to advantage.

Satellites are as vulnerable as they are valuable. America and Russia stopped such anti-satellite tests because both stood to lose: each side's eyes-in-the-skies monitored the other's nuclear weapons, helping to avoid awful mishap. These days satellites are used far more widely for communications, terrestrial navigation, crop monitoring and much more. With its provocative test, China has thumbed its nose at the many satellite-dependent countries.

As a purely practical matter, there are better ways of dealing with redundant satellites. China's way ensures that those smithereens—thousands of bits of debris, large and small—will orbit like bullets in space for years (another reason the Americans and Russians desisted). They may damage other satellites and put space-farers at risk. What irony if China, which takes pride in its own recent manned space flights, were to find its ambitions to put a man on the moon and eventually to build a space station set back someday by the still ricocheting rubble from its own irresponsible action.

China evidently calculates that all this is worth it. Its space blast was really aimed at rival America. Satellites not only add to America's already far superior conventional fighting power. These and other space-based sensors also aid the Bush administration's nascent missile-defence plans. If push ever came to shove over Taiwan, China worries that regional defences might help protect the island from the threat of around 900 missiles now pointed at it from the mainland. Meanwhile longer-range defences could blunt the deterrent value of China's rockets (few, but growing in number and being modernised) aimed at America itself.

For years China has blocked discussion of other issues at the United Nations Conference on Disarmament because America has refused to negotiate a new treaty banning the “weaponisation” of space; the 1967 Outer Space Treaty prohibits only the placing of weapons of mass destruction in space, though with strictures against harmful contamination of space, too. The Bush team counters that there is no arms race in space (officials deny plans to place weapons there), and therefore no need for a new treaty. Both sides are being disingenuous. China's occasional musings about whether defending Taiwan would be worth losing Los Angeles help (along with the antics of North Korea and Iran) to bolster support—and not just in America—for the missile defences that it wants a space treaty to constrain. Yet America's secretive space plans worry even some of its friends, too.

China's anti-satellite test makes a race to weaponise space more likely. Contacts between American and Chinese space scientists, broken off some years ago after accusations of Chinese spying and only recently tentatively resumed, are likely to shrivel once more. That is a pity, since co-operation can mitigate the suspicions that go with competition.

## A better way upward

An arms race in space would leave everyone, including its “winner”, worse off. Likewise, insisting on a treaty or nothing, with interminable debates over the legal definition of what is a space weapon—just something that can be fired or also the sophisticated bits and pieces that help find and track targets too?—won't stop the emerging space competition turning ugly. Better to try something more modest: a code of responsible conduct between existing space powers that emerging ones could also sign up to.

Such a code proposed by the Washington-based Stimson Centre, a think-tank, working with a group of non-government experts from China, Russia, Canada, France and Japan, would rule out interfering with other nations' space systems, including using lasers to harm satellites (another trick several, including China, have practised), and avoid activities that create long-lasting space debris. It would also provide advance notice of space manoeuvres that might get in others' way.

America is still more powerful in space. China has shown what damage it can do. Their competition won't end there. But there are surely better ways to manage it.

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Trade

# The real world economic forum

Jan 25th 2007
From The Economist print edition

**Is in Geneva, not Davos. It's time to pay another visit**

Alamy

FROM the shores of Lake Geneva, where the World Trade Organisation (WTO) makes its home, the Swiss Alps look almost too pretty to be true: a distant, gleaming skyline waiting for a chocolate box to adorn. On January 27th those charming peaks will host about 30 trade ministers, gathering informally on the fringes of the World Economic Forum in Davos. This meeting, taking place some 290km (180 miles) from Geneva, will be bigger than any that has graced the WTO itself since the Doha round of global trade talks was suspended six months ago (see article).

That suspension is a sorry indictment of the politicians who failed to reach a deal. But it also reflected badly on their fondue buddies at Davos: the global business elite. Previous trade deals, such as the Uruguay round completed in 1994, have clicked because of the lobbying power of exporters: in their eagerness to conquer new markets abroad, they have put pressure on their own governments to open up at home. But in this round, with a few honourable exceptions, the big exporters have lacked conviction. The passionate intensity has come instead from the opponents of the round, such as South Korean rice farmers, who want to keep their market shut tight, or Texan cotton growers, who want to hang on to their handouts.

Why have globalisation's biggest beneficiaries been so slow to look up from their BlackBerries and take on the pitchfork protectionists? It is partly because they are tired. China's entry into the WTO in 2001 felt like a trade round in itself. Some are also a bit scared: companies anxious about their public image hesitate to cheer for an organisation that some still hold responsible for drowning sea turtles in shrimp nets or denying generic medicines to the poor.

Mostly, however, businessmen have neglected Doha because they are bored, calculating that there is nothing much in the talks for them. The round is still gnawing at the bits of trade—cotton, grains, livestock, milk and so on—that were too tough for previous rounds to digest. But farming now accounts for less than 2% of the European and American economies. The stakes appeared too small for anyone but farmers to care.

## Down from the mountain top

Six months of silence show how short-sighted that calculation was. The monied men and women at Davos owe their prosperity to the trading system the WTO oversees. But when negotiations stop, the WTO itself stagnates. Litigation begins to collect, like algae on a still pond. This week, for example, the European Union joined Canada and a bunch of others in making a formal complaint about America's corn subsidies.

Some businessmen smugly imagine that if the WTO talks fail, they can get what they want from more exclusive deals, which pick trading partners off in ones, twos or threes. America, for example, has just finished another round of talks with South Korea. But by playing favourites and discriminating against everyone else, such deals cut against the grain of globalisation. Elaborate supply chains now span many borders: South Korean goods may be assembled in China, using machines from Japan. More often than not, a bilateral deal unblocks one trade route only to silt up its

tributaries. Besides, if the Doha round is not revived, America's Congress is unlikely to renew the trade negotiating authority that allows the president to seal a deal with South Korea or anyone else.

This weekend provides businessmen with the perfect opportunity to give ministers a sense of perspective. They were, after all, responsible for about $13 trillion of trade in 2005. The WTO underpins this success. Its future should not be jeopardised for the sake of a few billion dollars of soyabean subsidies or a few million tonnes of beef imports.

Indeed, from the heady heights of Davos, this trade round's preoccupation with farming—the oldest of old-economy businesses—looks absurd. But developing countries, now about two-thirds of the WTO's membership, will not talk about anything else until the organisation has finished talking about agriculture. No other set of concerns can succeed those of the Doha round, until the round itself succeeds. And that will not happen until the politicians come down a few thousand feet to lakeside Geneva, where the real work can get done.

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Liberty v equality

# Render unto Caesar

Jan 25th 2007
From The Economist print edition

**In the fight over Catholic adoption agencies in Britain, liberty should give way to equality**

Alamy

CHURCH and state have been battling in Britain since before Henry II had his Archbishop of Canterbury bumped off. But the row over gay adoption that burst into flames this week goes wider. Not only does it challenge the role of religion in a largely secular world; it also calls into question the degree to which respect for different customs and faiths in multicultural Britain should dilute the law of the land.

At issue is a new law forbidding businesses and organisations from discriminating against gays in the public provision of goods, facilities and services. The law is one step in a long journey that began with the Sex Discrimination Act of 1975 and the Race Relations Act a year later. Like its predecessors, it steps into the mine-ridden terrain where liberty—in this case, the freedom of citizens to live according to their religious beliefs—runs up against equality—the requirement that citizens treat members of groups they disapprove of as if they did not.

On January 22nd Cardinal Cormac Murphy-O'Connor, the head of the Roman Catholic church in England and Wales, told Tony Blair that placing children with single-sex couples was against the teachings of the church. Unless Catholic adoption agencies were exempted from the rules they would be closed, he said. The following day the Anglican top brass—Rowan Williams, the Archbishop of Canterbury, and John Sentamu, the Archbishop of York—urged the prime minister not to ignore the rights of religious people in seeking to protect those of gays. This seemed odd, given that Anglican adoption agencies do cater to gay couples; but Anglicans, too, are worried that the state is increasingly muscling in on areas that should be left to private conscience and religious teaching.

The harried Mr Blair, under fire from civil libertarians, secularists and half his party, is now looking for a way to keep everyone happy—perhaps by granting Catholic agencies exemption from the law as long as they continue to refer unwanted applicants to other agencies with different views. But the case for Christian—or Muslim, should they seek to join the fray—exceptionalism would have to be compelling.

Those who support it argue that, in addition to the dictates of conscience, children's rights must take precedence. This is of course correct. But while there is plenty of evidence that children from two-parent homes tend to do better than those with one or no parent, there is virtually none to suggest that the sexual orientation of those parents affects the outcome. And in many cases the alternative to adoption by a gay couple (or a single parent) is languishing in care.

A second argument is that the system cannot afford to lose Catholic adoption agencies. Although they accounted for only 4% of all children placed each year, they are good at finding homes for older children, and those with special needs and lots of siblings. But it is hard to stand up claims that they can reach families who would be unwilling to adopt elsewhere.

## Give it time

Part of the unease over the gay-discrimination rules is that they are new. It would not occur to many to defend the exclusion of black adoptive parents, for example. Churches, like societies, do change. Just as most Christians have reconciled themselves to lending money at interest and most Jews do not examine the labels in their clothes to see if they contain mixed wool and flax, so homosexual parents may come to seem another variety in the bewildering gamut of family structures.

But should the state force that process? There are two issues here. The first is financial. Catholic adoption agencies receive public money for their efforts—both directly, in the form of grants, and indirectly through the tax break that any charity receives. If they are exempted from the law, they should also be relieved of subsidies from the taxpayers whose representatives approved it. The matter could be left there, and the adoption agencies exempted from the law. There are plenty of examples of exceptions to the rules. *The Economist*'s London offices are surrounded by gentlemen's clubs, for example, to which ladies are admitted only as guests. But private clubs do not offer public services. Adoption agencies do; which strengthens the argument for making them abide by the rules.

The tension between freedom and equality cannot always be resolved satisfactorily; but there are not compelling reasons to exempt adoption agencies. The law should be enforced.

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# On Iraq, the UN Security Council, “no till” farming, Pushtunwali, Thailand, women's figures

Jan 25th 2007
From The Economist print edition

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FAX: 020 7839 2968 E-MAIL: letters@economist.com

## Too little too late

SIR – Your briefing on George Bush's latest policy for Iraq quoted the president's assertion that the war is “the decisive ideological struggle of our time” and that failure would be catastrophic (“The president's last throw”, January 13th). Now weigh that statement against Mr Bush's plan. He wants to increase troop levels by a mere 21,500. And he is appointing a “reconstruction co-ordinator” as part of an “oversight process” to hold the Iraqi prime minister to “benchmarks”. This is the bold response to a decisive moment in world history?

Mr Bush has never once suggested to the American public that they should join in a unified effort that would involve sacrifice. In fact his message is: proceed with business as usual. As commander-in-chief he has allowed the army to become stretched to breaking point and refuses to consider a draft to meet the challenges he has proffered.

Steven Morris
East Hampton, New York

SIR – It is disheartening to find that the editors of *The Economist* still share with Mr Bush this utter folly for the adventure in Iraq. The time will come when you will be forced to admit not only that the war in Iraq was stupidly conducted, but also doomed to failure from the outset because of the hopeless cultural and political ignorance underlying the false premises of its ideological rationale. Given the not-so-distant experience of Vietnam, it is a testament to your obtuseness, not to mention your American-induced hubris, that you continue to support this fiasco, and will only come to recognise (if not admit) your mistake long after the lessons and consequences are writ large for all to see.

John Sansone
New York

SIR – In response to your article on the new field manual for tackling counter-insurgency, I would like to assure you that the United States has well-developed rules of engagement that require troops to respond carefully to each threat using the minimum amount of necessary force (“Think before you shoot”, December 23rd). Having stood watch in the dark and the cold and travelled through convoys surrounded by foreign nationals, any of whom may want to attack us, I can attest to the difficulty of judgment calls. Given this environment, the American army as a whole has responded extremely well. I encourage anyone who disagrees to take their turn in Iraq and prove me wrong.

Kevin Sharpsten
Former sergeant
United States Marine Corps
Glendale, California

## A seat at the table

SIR – You suggest that if the big powers want to make better use of the United Nations and maintain its legitimacy then the Security Council should offer permanent membership to at least Japan, India, Brazil, Germany and an African country (“A chance for a safer world”, January 6th). But what about the inclusion of Muslim countries? Muslims around the world feel victimised and view the Security Council as a tool for the West to implement its decisions against them. A failure to represent the world's estimated 1.5 billion Muslims would completely destroy the council's legitimacy in their eyes.

Muhammad Ali
Bronshoj, Denmark

## Farming today

SIR – Peter Melchett omitted important facts on “no till” farming, organic farming and sustainability (Letters, January 13th). Total carbon-emissions from no-till farms are one-quarter those of organic farms and their soils incorporate one additional tonne of carbon per acre each year. No-till on a small percentage of British soil would easily achieve government targets for emissions reduction. The average British organic-wheat yield is four tonnes per hectare; the average conventional yield is eight tonnes per hectare. Other crops are little better.

Claims that organic yields can nearly match those of conventional farming, and feed the world, usually come from organic research institutes in Denmark and the United States whose employees do not have to earn a living by selling produce in the marketplace. They can therefore afford to do things ordinary farmers cannot. Farmers will continue to use fertiliser because it is reliable compared with the very variable mineralisation and yield from various kinds of manure.

Anthony Trewavas
Emeritus professor
University of Edinburgh
Edinburgh

### Custom made

SIR – Congratulations on handling such a complex subject as the Pushtunwali tribal code in a fair and balanced manner (“Honour among them”, December 23rd). I have a couple of comments, however. First, Winston Churchill may well have accused the Pushtuns of “treachery and violence” when he was a reporter attached to the Makaland Field Force, but that is rather like the pot calling the kettle black. The British used a fair amount of treachery and violence themselves. When the Pushtuns confronted the invading British it was always called “treachery”, but when the British used force to conquer the Pushtuns it was called “tactics”. And second, you (along with many other writers) referred to *nanawatai* as the Pushtun tradition of giving sanctuary to whomever wants it. *Nanawatai*, in the Pushtun code of honour, also means to forgive an enemy when he asks for it and agrees to sacrifice a sheep at the doorstep of the wronged. It is obligatory to accept this under the code.

A. Rauf Khattak
Peshawar, Pakistan

### Thailand's economy

SIR – You claim that the United Nations Development Programme's (UNDP) Human Development Report for Thailand, which focuses on the application of the “sufficiency economy” in that country, “provides cover” for the economic policies of the current government (“Rebranding Thaksinomics”, January 13th). However, the substantive work done on the report began more than one year ago and was completed before recent political events in Thailand. Its preparation was overseen by a team of 16 national and international experts, most of whom came from outside the UN. The sufficiency economy is in sync with the UNDP's focus on human development, and the report cites numerous examples of how this approach has been successfully implemented in Thailand, from the community to the government level, over the past ten years.

Joana Merlin-Scholtes
UNDP Thailand
Bangkok

### Economic curves

SIR – In regards to your article about the historical penchant for small waists on women, there is a considerable amount of research (in the humanities) showing that the ideal form of a woman is linked to her place in society and participation in the economy (“Breathe in, girls”, January 13th). The textbook case is the sudden transition from the roaring twenties to the Depression. Flappers used to tape down their breasts and wear men's clothes, but soon after the economic crash Hollywood icons reverted to big hips, breasts and long dresses.

Bradley Gardner
Santa Clara, California

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**Green America**

# Waking up and catching up

Jan 25th 2007 | AUSTIN, CHICAGO, LOS ANGELES AND WASHINGTON, DC
From The Economist print edition

Getty Images

**Belatedly, and for many reasons, America is embracing environmentalism**

WHEN Jim Webb, the new Democratic senator from Virginia, replied to George Bush's state-of-the-union message, he could bear to endorse only one of the president's proposals. This was the idea of cutting America's petrol (gasoline) consumption by 20% in ten years, by increasing ethanol production to 35 billion gallons a year and raising fuel-efficiency standards for cars.

Such a plan would reduce America's dependence on imported oil from dangerous places (as would Mr Bush's plan to double the country's petroleum reserves). But it would address global warming only tangentially. The Democrats in Congress are weighing much more dramatic measures, including across-the-board cuts to the greenhouse gases that are heating up the planet. At the state level, politicians of all stripes are already taking more radical steps. Even big business is coming round. Mr Bush may be dragging his feet, but America is greening fast.

The Democrats' victory in last year's elections means that Congress's stance on environmental issues has changed dramatically. In one race for the House of Representatives, a Democratic consultant on wind power defeated a Republican ally of the oil industry. Barbara Boxer, an ardent advocate of firm action on climate change, has taken over the chairmanship of the Senate Environment Committee from James Inhofe, who often described global warming as “the greatest hoax ever perpetrated on the American people”.

Since Congress convened earlier this month, the Democrats have got to work fast. The House has passed a bill that would eliminate a tax break for oil production in America, and would impose penalties on firms that refuse to renegotiate the absurdly generous leases the government accidentally granted them in the late 1990s. The proceeds—perhaps $15 billion over the next decade—would be used to fund renewable energy schemes.

Nancy Pelosi, the new speaker of the House, is now turning her attention to global warming. She is setting up a committee to address both that issue, and America's dependence on imported fuel. She wants to see legislation before July 4th, so that she can declare “energy independence” on the same day that the founding fathers severed political ties with Britain.

Meanwhile, some half-dozen bills on global warming are circulating in the Senate. Several propose cap-and-trade schemes, whereby the government would create a fixed number of permits to produce greenhouse gases and then auction them or allocate them to businesses. Firms without enough permits to cover their emissions would either have to pollute less, or buy up spare ones from firms that had managed to cut back.

John McCain, a leading Republican presidential candidate, and Joe Lieberman, a former Democratic one, are behind the most prominent cap-and-trade scheme. Barack Obama, one of the Democrats' current presidential aspirants, is a co-sponsor. It is the most ambitious of the bills with serious backing: it would cut carbon emissions to 2004 levels by 2012 and then mandate further reductions of 2% a year until 2020. Although these targets are less onerous than those of the Kyoto protocol, the United Nations' treaty on climate change, most analysts reckon they will prove too

exacting for Congress.

An alternative cap-and-trade scheme, sponsored by Jeff Bingaman, chairman of the Senate Energy Committee, suffers from the opposite problem: excessive modesty. His plan would aim to slow the growth of emissions, and ultimately stabilise them at their 2013 level by 2020. It includes a safety valve, under which the government would automatically issue more permits to pollute if the price of those permits rose too far. The economic impact would be much smaller than under the McCain-Lieberman plan but so, too, would the reductions in emissions.

Dianne Feinstein, a Democratic senator from California, is proposing a third approach. She wants to create cap-and-trade mechanisms within industries rather than across the economy as a whole. She has, for instance, proposed legislation that would cut power companies' emissions by 25% of their projected levels by 2020.

All these initiatives face an uphill battle. The previous Senate rejected the McCain-Lieberman plan twice—by a bigger margin the second time around. Any bill that involves mandatory caps on greenhouse-gas emissions would need 60 of the chamber's 100 votes to succeed, since Mr Inhofe has pledged to filibuster all such measures. In the House the Energy Committee is chaired by John Dingell, a Democrat from the carmaking hub of Detroit who has long opposed mandatory caps. Mr Dingell, who says Ms Pelosi's new committee is “as useful as feathers on a fish”, will still have a big say in any legislation. And even if a bill overcomes all these obstacles, it would risk a presidential veto.

## A matter of security

But whatever the fate of these proposals, the political climate is changing faster than the weather. Almost all the leading presidential candidates favour emissions caps. One of them, Hillary Clinton, has condemned the Bush administration's failure to act as “unAmerican”. That is a remarkable change since 2000, when Al Gore toned down his environmental rhetoric during his presidential campaign for fear of sounding pious and obsessive. Indeed, activists are so convinced that the next president will be greener than Mr Bush that they are debating whether to settle for immediate but modest measures on global warming, or wait for a new administration to take bolder steps.

The Democrats have always been the greener party, but environmentalism is budding among Republicans too. Take Saxby Chambliss, a moderate senator. He voted against the McCain-Lieberman bill in 2005, but changed his mind after visiting Greenland to view the melting ice cap. “There really is something to it,” he now says.

AP

**A no-brainer in Missouri**

Many factors lie behind the party's shift. Most have to do not with sudden sentimentality in the face of Nature, but with national security (a motivation that lies, too, behind Ms Pelosi's new committee and Mrs Clinton's patriotic posturing). Fiscal hawks fret about the impact of growing oil imports on the dollar. Military types fear global conflict for dwindling resources in the event of catastrophic global warming. Neoconservatives worry about America's dependence on oil imports from unstable if not openly hostile countries in Latin America and the Middle East. Some think the solution is simply to pump more oil at home, but others argue that America needs to move away from oil altogether. One such figure, Jim Woolsey, a former director of the Central Intelligence Agency, pointedly drives a Toyota Prius, a famously fuel-efficient car.

At the same time, a growing number of evangelical Christians are beginning to see global warming as a moral issue. They argue that mankind, as steward of God's creation, has a duty to protect the environment. One outfit, the Evangelical Climate Initiative, encourages prominent pastors and theologians to sign a “Call to Action”. Another group, the Evangelical Environmental Network, runs a website called “What would Jesus drive?” Last year Pat Robertson, a prominent televangelist, told his flock, “We really need to address the burning of fossil fuels.”

The Republican Party has a strong, albeit fitful, tradition of environmentalism. Teddy Roosevelt expanded America's national parks. Richard Nixon created the Environmental Protection Agency (EPA). Mr Bush's father, when he was president, signed off on America's first nationwide cap-and-trade scheme to control emissions of the gases that cause acid rain.

But the strongest force propelling environmentalism among Republicans is self-preservation. Arnold Schwarzenegger, the decidedly green governor of California, was one of the few luminaries in the party unaffected by last year's electoral meltdown. Republicans in other western states, where a Democratic tide is rising and a pristine landscape is a major tourist attraction, are following Mr Schwarzenegger's moves with interest. They fear the party may lose ground with moderate middle-class types who dislike urban sprawl and unfettered oil-drilling.

The destruction wrought by Hurricane Katrina in 2005 had a big influence on voters, according to Jonathan Lash of the World Resources Institute. Americans seem to view the increasing incidence of freakish weather as proof that climate change is real. Many of them paid to see Mr Gore's film on the subject, making it the third-most-successful documentary of all time (and now a candidate for an Oscar). Polls show that Americans are gradually growing more exercised about global warming, although they are still less anxious than Europeans or Japanese.

## The business view

Even big business, which stands to lose most from stricter environmental regulation, is beginning to accept that change is in the air. Exxon Mobil, led until recently by a fierce sceptic of global warming, now concedes that there is a problem, and that its products are contributing to it. Last year four-fifths of utility executives polled by Cambridge Energy Research Associates, a consultancy, expected mandatory emissions caps within a decade.

If regulation is indeed on its way, many firms would like Congress to fix the rules sooner rather than later, to help them plan investments in factories and power plants with long lifespans. Earlier this week ten companies, including Alcoa, Caterpillar and DuPont, called for Congress to set up a cap-and-trade system for greenhouse gases as quickly as possible. Since most of the firms involved produce clouds of emissions, they would obviously like to influence future legislation.

But the firms' bosses claim to see emissions caps as an opportunity, not a threat. GE, a member of the group, wants its executives to use their “ecomagination”. By the same token Rick Wagoner, the head of GM, the world's biggest carmaker, recently hoped aloud that oil prices would remain high, so that his firm would keep its incentive to develop fuel-efficient cars. Wal-Mart, America's biggest retailer, hopes to double its sales of low-watt lightbulbs.

Lots of firms are growing healthily on the back of America's sudden enthusiasm for alternative energy. Americans invested almost $30 billion in the sector in 2006, according to New Energy Finance, a research firm. American venture capitalists lavish seven times more on greenery than their counterparts in Europe. Ethanol production was expected to double in the next few years, even before the latest boost from Mr Bush. Wind and solar power are also booming. And the bigger green firms become the more influence they will have over politicians.

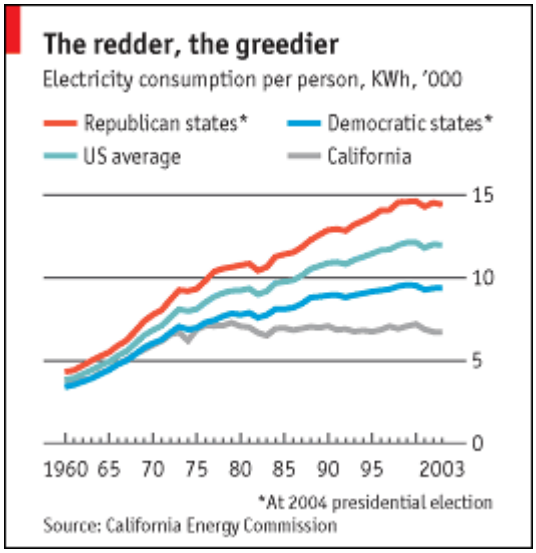
## States to the fore

At the very least, businesses want to avoid a patchwork of conflicting local regulations on environmental matters in general, and greenhouse-gas emissions in particular. There is already a bit of a muddle, since several states have taken much bolder and more experimental steps than the federal government. California, the boldest of all, has taken on carmakers, electricity companies and the EPA, to name a few. Its politicians vie to out-green one another. Some 40 of its legislators drive hybrid cars. Mr Schwarzenegger, not to be bested, has converted one of his fuel-swigging Hummers to run on hydrogen.

Congress may be thinking about tackling greenhouse-gas emissions, but California has already done it. Its Global Warming Solutions Act, which was passed last year, aims to cut them to 1990 levels by 2020—an ambitious target for a state that has grown rapidly in the past 15 years and will probably continue to do so. The details have yet to be fleshed out, but the reductions will come from both a cap-and-trade scheme for industry and regulations of various sorts.

Mr Schwarzenegger issued the first such regulation earlier this month, obliging producers of petrol and other fuels to cut the emissions of carbon dioxide from their products by 10% by 2020—presumably by mixing in more ethanol and other biofuels. It is not California's first attempt to reduce emissions from transport: its legislature voted for stringent cuts in 2002. That move has become snarled in a court battle over whether states have the right to set fuel-economy standards. Meanwhile, the politicians keep trucking. In September, the state showily sued six car manufacturers, alleging they had damaged its climate. It is also suing the EPA, for failing to regulate greenhouse-gas

emissions.

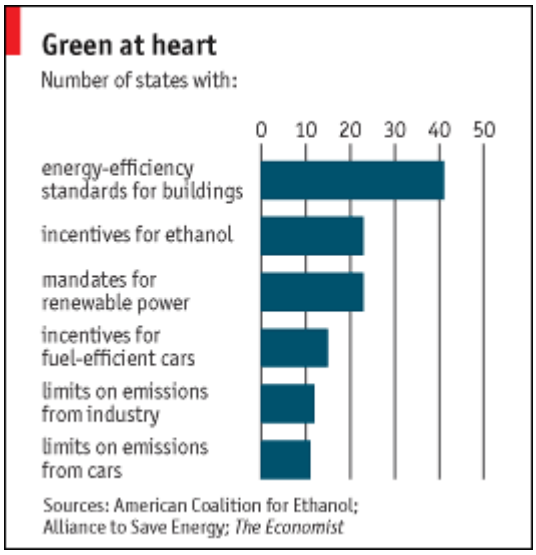



California's politicians are keen on renewables too. State law requires utilities to generate 20% of the power they sell from sources such as windmills and biomass plants by 2010, and 33% by 2020. Solar power has won even greater favour: under the "million solar roofs" scheme, the state plans to spend more than $3 billion over the next decade subsidising the installation of solar-power panels.

California has also pioneered the practice of "decoupling", which deprives power firms of their incentive to sell as much electricity as possible. Instead, the local regulator has devised a formula to reward firms whose sales are lower than expected, and to allow the recovery of the costs of energy-efficiency schemes.

Such measures (along with high power prices to pay for them) have helped California rein in its electricity consumption—although lovely weather and a relative lack of heavy industry have also played a part. Power use per person has remained roughly stable in the state since the 1970s, even as it has doubled in the rest of the country (see chart above). As a result, California's greenhouse-gas emissions per person are on a par with those of Denmark. Relative to the size of its economy, they are lower.

But California is not America's only green enclave. Nine states in the north-east have combined to reduce emissions from power generation through a cap-and-trade scheme. Two of them plan to auction all the permits, unlike the countries in the European Union's Emissions Trading Scheme, which handed them out for nothing. Ten states have signed up to follow California's standards on car exhaust, including its requirements on greenhouse gases. Many more promote ethanol, or renewables, or energy-efficient buildings (see chart below).




On the whole, left-leaning states are keener on greenery than right-wing ones, which tend to be more energy-intensive. But politicians of all stripes in the Midwest are keen to promote ethanol for the sake of local farmers, who grow the corn from which it is made. And Texas recently overtook California as the country's biggest generator of wind power.

Greenery is also popular at the local level. Almost 400 cities have devised plans to curb or reduce their greenhouse gas emissions. Many buy only fuel-efficient cars for their municipal fleets. Laura Miller, the mayor of Dallas, has spoken out against the plans of local utilities to build 17 new coal-fired power plants. What is the point of her city buying police cars fuelled by natural gas, she asks, when they will soon be overshadowed by clouds of soot?

Despite all this grassroots environmentalism, America remains the biggest contributor to global warming, accounting for roughly a fifth of all the world's emissions. The federal government's recalcitrance on the subject remains the biggest obstacle to an effective global scheme to tackle the problem. But whereas in Europe or Asia new ideas often flow from the centre to the regions, in America the states are the incubators of big shifts in policy. This means that change is coming—fast.

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The state-of-the-union message

# Bush loses the upper hand

Jan 25th 2007 | WASHINGTON, DC
From The Economist print edition

Getty Images

**Fortunately, the state of the union is better than the state of the president**

Get article background

FOR his past five state-of-the-union addresses, George Bush has been framed by two overweight white men, sitting behind him on the podium. This year Dick Cheney was still there, trying to look cheerful. But Dennis Hastert was replaced by a very different figure—a pencil-thin woman from America's most liberal city. Nancy Pelosi's position in the Speaker's chair was a vivid reminder of how much politics has changed since the mid-term elections—and how rapidly Mr Bush's power is slipping away from him.

Mr Bush faces Democratic majorities in both chambers, a majority of 31 in the House and of one in the Senate. (Joe Lieberman aligns himself with the Democrats there despite being an independent who supports Mr Bush over Iraq.)

But this is only the beginning of his problems. Public support for the war is crumbling. Mr Bush is facing a big showdown with Congress, as Democratic opposition hardens and leading Republicans abandon him: on January 24th, the Senate Foreign Relations Committee voted against his latest Iraq plan. And his poll numbers are in the tank. A recent ABC News/*Washington Post* poll puts Mr Bush's approval rating at 33% and his disapproval rating at 65%. This does not make him the most unpopular president in post-war history—Richard Nixon and Harry Truman have gone lower. But third from bottom is hardly good news. The most important fact about the state-of-the-union speech, from a political point of view, is a simple one: the union is turning sharply against Mr Bush and his policies.

So, in the first half of Mr Bush's speech he struck a bipartisan tone. “Our citizens don't much care which side of the aisle we sit on, as long as we're willing to cross that aisle when there is work to be done”, he said, and laid out several areas where, he believed, Republicans and Democrats could work together. He proposed a wide-ranging plan to reform health care by making basic private health insurance more affordable (see article). He produced a set of proposals to tackle climate change and America's dependence on foreign oil, including a target of reducing America's petrol consumption by 20% in the next ten years. He also tried to regalvanise his proposal for “comprehensive” immigration reform, embracing a temporary worker programme and a path to citizenship as well as tougher border controls.

Mr Bush's best chance of bipartisanship may lie in immigration reform. The biggest barrier to such a reform in the past has come from congressional Republicans. On Tuesday the Democrats were notably more enthusiastic about Mr Bush's proposals than the Republicans. Dana Rohrabacher, a Californian Republican, even made a point of sitting grumpily in his chair while the entire Democratic side was on its feet applauding. Immigration reform will stir up a hornet's nest on the right, providing doubting conservatives with yet another reason for abandoning the president. But it will also provide Mr Bush with a chance to end his presidency with a big domestic reform, just as he began it with a big reform of education.

Mr Bush's embrace of energy independence and greenery also suggests a growing consensus: this was the first time that Mr Bush has referred to “global climate change” in a state-of-the-union message. (On the same day he said it, his rival in 2000, Al Gore, was being nominated for an Oscar for his film on the subject.) But Mr Bush's earlier forays in this area have fallen flat. He failed to provide his plan to reduce petrol consumption with any teeth. And the Democrats are unlikely to allow Mr Bush to hijack what they regard as one of their signature issues. Mr Bush's proposals to reform health care are also sensible. But the Democrats pronounced the idea dead on arrival, and the president lacks the political capital to override their objections.

## The gulf over the Gulf

Mr Bush devoted the second half of his speech to Iraq. His defence of his policy was feisty, in the circumstances. But it was completely devoid of the optimism of previous years. And at its heart lay an admission of profound failure. “This is not the fight we entered,” he said, “but it is the fight we're in.” He said little about the rest of the “axis of evil”, underlining the extent to which Iraq has constrained his foreign policy even as North Korea and Iran move ever closer to having deliverable nuclear weapons. He argued that withdrawing from Iraq would produce a regional conflagration: a striking reversal from his earlier argument that invading Iraq would bring stability to the region and an admission that his “realist” critics had been right before the war. Mr Bush's speech was essentially a desperate plea to be given more time.

But he is unlikely to get the time he is asking for. In the formal Democratic reply to the speech, Jim Webb, a senator from Virginia, savaged the president. He said that Mr Bush “took us into this war recklessly”, and that the United States is now “held hostage to the predictable—and predicted—disarray that followed.” He called for a “formula” that will allow American combat troops to leave Iraq “in short order”. Mr Webb's words have an added resonance because of who he is—a Vietnam war veteran and former Republican who broke with his party over Iraq, and the father of a marine who is currently serving in Iraq. But such opposition is only to be expected from the Democrats. What is really limiting Mr Bush's time is what is going on across the aisle.

The most ominous sign for the White House is that Senator John Warner has co-sponsored a bipartisan proposal that soundly rejects Mr Bush's plan to send more troops to Baghdad, and urged a new course in Iraq. Mr Warner is a foreign policy heavyweight in Republican circles, a former chairman of the Armed Services Committee and a former secretary of the navy; and, unlike Chuck Hagel, co-author of another critical resolution, he has a long record of being supportive of Mr Bush. Mr Warner's proposal has attracted the support of two other Republicans, Maine's Susan Collins and Minnesota's Norm Coleman, and other Republicans have made their unhappiness felt.

The doubts are now pervasive in the party. John Cornyn, a conservative Republican senator from Texas, told CNN that he no longer believed that the president is a credible spokesman on Iraq. Even Mitch McConnell, the Senate minority leader and a Bush supporter, warned that the Iraqi government had very little time to turn things around.

Republicans have tended to be more loyal than Democrats (congressional Democrats turned on Jimmy Carter with relish, and gave up Bill Clinton for dead during the Lewinsky affair). But Republicans can read the political runes like everyone else: more than 60% of Americans oppose sending more troops to Iraq, despite the White House's best efforts to turn opinion around. If Republicans are confronted with a choice between giving Mr Bush the time he needs and political survival, they will choose political survival, for all the loud applause they gave Mr Bush on Tuesday night.

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Health care

# The right medicine

Jan 25th 2007 | WASHINGTON, DC
From The Economist print edition

**The president's plan would control costs and help the uninsured**

IT IS a cruel irony that George Bush has come up with one of the most sensible proposals of his presidency just as the chances of getting it implemented are close to zero. In his state-of-the-union speech, Mr Bush laid out a plan to limit the vast federal tax subsidies for health insurance. His ideas are bold and mostly good. Too bad that with Democrats in control on Capitol Hill and his approval ratings at dismal lows, the plan is more likely to end up in the dustbin than on the statute books.

The federal tax subsidy for employer-provided health insurance underpins America's health-care system, and causes many of its problems. It dates from the second world war when wage and price controls led firms to lure scarce workers by offering health insurance. Unfortunately, this huge tax break, now worth some £200 billion a year, is both unfair and inefficient. Employees get an unlimited subsidy, while the self-employed and those whose firms do not offer health insurance get virtually none. People in higher tax brackets derive the biggest benefits. Worse, the unlimited tax break tends to fuel health-care inflation, by encouraging people to go for expensive insurance packages that are weak on cost control.

Mr Bush wants to reduce these distortions by replacing today's unlimited tax break for employer-provided health care with a standard tax deduction of $15,000 for a family and $7,500 for an individual, which would be available to anyone who buys health insurance, whether through an employer or on their own. Health insurance provided by an employer would then count as taxable income, meaning that anything spent above the level of the deduction would incur tax, which should exert downward pressure on costs. People without health insurance from an employer would find it very much cheaper to buy coverage.

The plan is hardly draconian. Most people would see their tax bill fall in the short-term, as 80% of insurance premiums are below the proposed standard deductions. But the deductions are to be indexed to overall consumer prices, which have risen much more slowly than the cost of premiums. So the limit will gradually bite harder. The White House claims the plan is budget-neutral over ten years and that it could spawn efficiencies that will lower health spending by 0.5% of GDP. America currently spends about 16% of its GDP on health.

Not surprisingly, most economists, including many top Democratic wonks, applaud the idea of limiting tax subsidies. Yet there are criticisms. The Bush plan does not do much, for instance, for poorer people who pay little or no tax. Others worry that the plan will accelerate the collapse of employer-based health insurance while doing little to improve the market for individually bought health insurance, particularly for older, sicker people.

But, as the more honest Democratic economists will admit, it is a courageous start. Not since Ronald Reagan has a president dared to suggest capping health-insurance subsidies—and Reagan failed. Unfortunately, the outlook on Capitol Hill is grim. Top Democrats worry that the White House simply wants to unravel employer-based health care. The unions, which negotiate lavish health care for their members, hate it because they would lose out. Others simply want to deny Mr Bush a victory. The plan is “dead on arrival” in Congress said Pete Stark, the chairman of the House sub-committee on health. That is a pity because, for once, Mr Bush has put out an idea worth pursuing.

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The Plame affair

# A criminal tale of leak and spin

Jan 25th 2007 | WASHINGTON, DC
From The Economist print edition

**“Scooter” Libby refuses to be the fall guy**

AP

He won't swing alone

THE trial of Lewis “Scooter” Libby, the former chief of staff to Vice-President Dick Cheney, got under way this week. Mr Libby is charged with perjury, making false statements and obstructing an investigation. Much to everyone's surprise, it turns out that he is a fighter. And if he is going down, he will try to take Karl Rove, the president's closest adviser and chief spin-doctor, with him.

The story begins in 2003, when someone gave a reporter the name of a covert CIA operative, Valerie Plame, in the course of a row over a false presidential statement about Saddam Hussein's attempts to acquire uranium. Leaking the identity of an undercover agent is a serious crime. When investigators came looking, Mr Libby claimed that he was just an ear, not a mouth. He said he heard about Ms Plame from Tim Russert of NBC News. It subsequently emerged that Mr Libby was not, in fact, the original source of the leak. But his misdirection gummed up the investigation and led to his prosecution.

In an opening statement on January 23rd, Patrick Fitzgerald, the prosecutor, argued that Mr Libby must have lied deliberately, because he was blabbing about Ms Plame before his conversation with Mr Russert took place. An honest mistake, insists the defence. Mr Libby was so preoccupied with preventing terrorist attacks that he got mixed up.

Moreover, the defence continued, Mr Libby is a scapegoat. He “was to be sacrificed”, said Theodore Wells, one of his lawyers. The scheme, he said, was to use Mr Libby to distract attention from Mr Rove, whom many people suspected of instigating the leak. (Mr Rove has not been charged with anything.)

Mr Libby had worried that this might happen, said Mr Wells, and approached his boss for help. Mr Cheney pondered the matter and expressed his intent to support Mr Libby in a brief note. “Not going to protect one staffer and sacrifice the guy who was asked to stick his neck in the meat grinder,” he wrote.

The purpose of the defence tactics is not entirely clear. Mr Rove's guilt would not prove Mr Libby's innocence. Maybe everyone is guilty—including the vice-president, who may soon take the stand. Whatever the truth, the infighting is embarrassing for an administration that has prided itself on discipline—and has enough political problems already.

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America and Cuba

# In transition

Jan 25th 2007 | MIAMI
From The Economist print edition

**Pressure is growing for a re-think of policy towards the island**

THE fading health of Fidel Castro, coupled with the advent of the new Democratic Congress, means that America is under growing pressure to change its tough stance towards Cuba. Before Christmas, a ten-member bipartisan congressional delegation travelled to that dangerous island for a series of meetings with senior Cuban government officials. “It's a time for change,” says Jeff Flake, Republican of Arizona, who led the delegation. “There's a new dynamic now.”

AP

**Change is the talk of Calle Ocho**

Both sides feel it. Since taking over from his invalid brother in late July, Raúl Castro has twice offered to open normalisation talks with America. Each time he has been tersely rejected. The Bush administration says it is not interested so long as either Castro brother is in power. Critics say the administration is ignoring political developments in Cuba, where Raúl is showing signs of a less doctrinaire style of rule. But promoting change in either capital is no easy task. For the past six years the Bush administration has fought off efforts in Congress to soften the embargo, using the Republican majorities there to defeat repeated attempts to alter its terms.

That has now changed. The relevant committees in the 110th Congress are now headed by longstanding critics of the embargo. These include Charles Rangel, chairman of the House Ways and Means Committee, and Max Baucus, who heads the Senate Finance Committee. In the Senate Joe Biden of Delaware, a liberal and non-ideologue, has taken over the Foreign Relations Committee.

William Delahunt, the Democrat who now heads the oversight panel of the International Relations Committee in the House, has already announced that he will hold hearings shortly into Cuban aid programmes. Other hearings could be held on scandal-plagued Radio and TV Martí, the Miami-based government broadcasting outlets directed at Cuba. A government report has already exposed flaws in aid to Cuba's tiny dissident movement, as well as in funding for anti-Castro projects in the United States.

Critics say all these programmes have done a good job of fuelling the anti-Castro industry in Miami, while having little impact in Cuba. That, of course, has long been the dirty secret of America's Cuba policy. “The administration is not interested in Cuba, it is interested in Calle Ocho,” says Philip Peters, vice-president of the Virginia-based Lexington Institute, referring to the main avenue that cuts through Miami's Little Havana district. Miami's Cuban-American electorate and campaign contributions have long been seen as politically vital, less because of their actual size than because of Florida's perennial importance as a big presidential swing state.

In 2004, though, the Bush administration overreached itself. A presidential “Commission for Assistance to a Free Cuba” proposed increasing aid to the dissidents while imposing tight limits on cash remittances to relatives on the island. Cuban-Americans were also restricted to one trip to Cuba every three years, and to visiting “close” relatives only—not including aunts, uncles and cousins.

But the travel and money limits, while popular with some hardliners, are disliked by many Cuban-Americans, especially those who have arrived in the past two decades and still have ties to family on the island. Many now advocate personal contacts as a useful vehicle for change.

Last month, a group of Cuban exile organisations in Miami echoed the call for easing restrictions on travel and remittances. Consenso Cubano issued a report saying that the policy violated “fundamental rights of Cubans”. It was endorsed by the influential, and extremely conservative, Cuban-American National Foundation. Four prominent dissidents in Cuba also signed a statement in late November asking America to lift its travel restrictions. American laws “in no way help” their struggle, they said. Will George Bush listen? It's not what he's best known for.

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Cuba and Dixie

# Chickens for Cuba

Jan 25th 2007 | MOBILE
From The Economist print edition

**Southern states are eager to boost trade with Cuba**

THE docks in Mobile, Alabama's only seaport, are crammed with lumber, steel coils, frozen chickens, coal and much else. But few of these products are bound for Cuba, just 550 nautical miles (1,000km) away. The state port authority's director, James Lyons, hopes this will change. “We're trading with Vietnam, we're trading with China. These are both communist states,” he says. “It's silly to have tense relations with a neighbour that close.”

Mr Lyons is hardly the only Southerner who would be glad to see the end of America's 45-year embargo on trade with Cuba. Trade delegations from Alabama, Mississippi and other Gulf states have been descending on Cuba in recent years, hoping for a slice of a potentially lucrative market. Currently only agricultural products and medicines may be exported from America (with no Cuban imports permitted). Before 2000, when the embargo was loosened, nothing was allowed.

In 2005 Alabaman companies did roughly $140m in trade with Cuba, according to Ron Sparks, the state's agricultural commissioner, who is aggressively pursuing Cuban business. “We've sold cotton, we've sold cookies, crackers, fruit juice, mayonnaise, mustard, salad dressing—a lot of processed foods,” says Mr Sparks. Over half of all chickens exported from America to Cuba come from Alabama, along with almost all the (wooden) telephone poles. The owner of one Alabaman pole-making business, which first shipped utility poles to Cuba after Hurricane Charley in 2004, says that competition is fierce for the Cuban business, especially since a large-scale electrification project in Cuba has boosted demand. Helpfully, Alabama has no powerful pro-embargo lobby of Cuban exiles like the one in Florida.

Volume would be higher still if the embargo were lifted. In Mobile, the port's trade with Cuba amounts to only a few thousand tons a year—a fraction of its 50m ton (45m tonne) annual average. Just one or two ships a week leave for Cuba, as against six or seven in the pre-Castro days. “There's all manner of things that could be exported,” says Mr Lyons—roofing materials, machinery, cars, even paint, none of which is currently allowed. Exports from America, it is reckoned, could easily treble from the current $350m or so a year.

More agricultural goods could also be shipped, but “there are a lot of people who just don't want to fool with all the paperwork,” says Mr Lyons. Many extra hassles complicate trade with Cuba. Americans cannot travel there freely, so many businessmen attach themselves to state officials as part of a delegation (and still must get permits from Washington). Payment is also an issue. Americans cannot accept money from Cubans directly, so setting up a third-party payment procedure is necessary. The transaction must be in cash (which some Americans regard as a plus). Ships cannot head directly from Cuba to the United States, though sometimes extra paperwork can circumvent this.

Even if the embargo were to be lifted tomorrow, Mr Lyons cautions that trade would not boom immediately. “They

don't have the currency to buy what they need," he says. But trade works both ways—so how about some Cuban cigars and rum for America?

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State legislatures

# The long and short of it

Jan 25th 2007 | CHICAGO
From The Economist print edition

**In some states, new legislatures have to work fast**

WHEN Congress convened earlier this month, Democrats in the House used their new majority to pass some popular measures during the first 100 hours in session. House Democrats hope to portray themselves as a determined bunch who are swiftly getting things done; but few of those votes will mean much until the Senate approves similar bills, the two chambers negotiate, and George Bush signs them into law. If Americans really want to see some busy lawmakers at work, therefore, they should pay attention over the next few months to their often-overlooked state legislatures.

AP

**Nice place, considering the Texans use it only every other year**

Some states have only brief legislative sessions—as short as 30 calendar days this year in Virginia, and 45 in Utah—that leave little time for gimmickry. In state capitals from Bismarck, North Dakota, to Cheyenne, Wyoming, newly elected state representatives have arrived along with small armies of lawyers and lobbyists for a fast-paced legislative push. Karl Kurtz, of the National Conference of State Legislatures (NCSL), says that lawmakers in many states had a good excuse last week for working on Martin Luther King's birthday, a federal holiday.

Habits vary widely. In Texas, where Mr Bush was governor in the 1990s, legislators meet for less than five months, every other year. Compared with most other big states, like California, New York and Pennsylvania, Texas does indeed spend little time sitting. Florida, where Mr Bush's brother, Jeb, has just finished a stint as governor, has the only other big-state legislature with a short session: it meets for only 60 days a year. Outside the big states, however, there is lots of variety.

Biennial sessions used to be the rule in America. It made sense when travelling to and from the state capital was hard and lawmakers had farms or other business to get back to. Even when times changed, the rules did not, because many states wanted to keep their citizen legislatures long after modern work and transport had transformed life in their states.

A wave of reforms beginning in the 1970s changed that. Forty-four states now meet every year, compared with only 19 in the early 1960s, according to the NCSL. And many of the other six, including Texas, often call special sessions to deal with budget problems, issues arising from court decisions and so forth. Oregon's assembly recently agreed to hold a 20-day special session in 2008—its off year—for regular business. Some states have also tried in recent years to relax or remove limits on the length of sessions, but they remain short in many places.

The short sessions are often a crucial period for owners of restaurants, hotels, and a wide assortment of watering-holes. That is especially true of states in which the capitals are not the biggest cities, since the legislative season brings in lots of lucrative visitors. In Helena, Montana, many Republicans will be clustering in a handful of establishments such as Jorgensons (hotel rooms, food and alcohol, all in one place) for the next four months, while Democrats, as is their habit, fan out to sample a wider range of bars and restaurants.

Tallahassee, Florida, used to be similar. Alan Rosenthal, who researches state legislatures at Rutgers University, says the town was always hopping during legislative sessions and sleepy the rest of the year. But some local owners complain that a year-old ethics law, which makes it harder for lobbyists to entertain lawmakers, has been bad for business.

Although short sessions give state capitals a different flavour, Messrs Kurtz and Rosenthal—who spend lots of time comparing legislatures—both reckon they ultimately produce similar results to full-time assemblies. Lawmakers work longer and harder when time is scarce. In many states, such as Florida, committees can get together year-round, so that bills are queued up and ready to go when the full chambers are briefly in session. And, says Mr Rosenthal, state legislatures with long sessions tend to spend most of the time deadlocked, until the end of the session approaches and they pass all their bills in a chaotic rush.

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**Real estate and the West's economy**

# Booming Bend

Jan 25th 2007 | BEND, OREGON
From The Economist print edition

### Prosperity comes to the mountains

DURING the property frenzy of 2004 to early last year, cities such as Miami and San Francisco got most of the attention. But no housing market was more overheated than that of Bend, Oregon, a town of 67,000 built on a high plateau covered in sagebrush, juniper and pine trees. From September 2005 to September 2006, home prices in Bend leaped 30.4%, the highest rate in the country, according to the Office of Federal Housing Enterprise Oversight, which regulates the government-sponsored lenders Fannie Mae and Freddie Mac.

Why the increase? Bend's appealingly dry climate (it lies east of the Cascade Mountains, which catch most of the rain clouds sweeping in from the Pacific), its small-town feel and its mix of leisure activities (skiing, golf, tennis, mountain-biking) have made it a magnet for California residents fed up with traffic. Bend's median home price of $350,000 is still a bargain compared with price-tags in the Golden State of $550,000 and more. Baby boomers snapping up second homes also added to the land rush, as did refugees from larger, wetter Pacific north-west cities such as Portland and Seattle.

Bend is also economically vibrant. It typifies the changes seen in many western towns that once were sleepy backwaters based on mining or timber. As recently as 1980, it had a population of only 20,000. The end of Bend's logging industry during the 1980s, killed by high costs and environmental restrictions, meant the loss of a particular western culture. But it also sparked the beginning of Bend's new prosperity. Logging's demise meant that the forests wreathing the mountains and lakes around Bend are likely to stay the same for many years. As towns such as Missoula, Montana, and Sun Valley, Idaho, have also found, trees are more valuable standing than chopped down for lumber, says Nina Chambers, a researcher with a think-tank called the Sonoran Institute.

Why? Because fabulous scenery attracts people with fabulous amounts of money. Outside Bend, residents and tourists fish, hike, bicycle, mountain climb, ride snow-machines, and ski in beautiful forests of Ponderosa pine. Golfers on the area's many courses admire grand panoramas from each tee. In turn, those same people have helped make Bend's Old Mill District, once the site of one of the West's biggest sawmills, the city's hottest retail and office development. The brick powerhouse building that supplied electricity to the mill now houses a big shop where Bend's army of climbers, skiers and mountain bikers stock up on the latest gear.

In some areas all this translates into a city full of ageing but well-off geezers. Not in Bend. At the St Charles Medical Centre, the hospital's CEO, Jim Diegel, frets that his maternity unit, now being expanded, will be at capacity the minute it's finished. Bend's school district is bulging too, with enrolment jumping 58% in the past decade, and 1,100 new students in the past year alone. That bodes well for the city: a large population of relatively young adults means thousands of children who will eventually want to create their own jobs and wealth in Bend.

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Lexington

# Hating Hillary

Jan 25th 2007
From The Economist print edition

Kevin Kallaugher

**Mrs Clinton starts her presidential race facing an army of people who loathe her. Does it matter?**

HILLARY CLINTON'S announcement that she is running for president ("I'm in, I'm in to win") is manna from heaven for two groups of people: Clinton family retainers and professional Clinton-haters. The latter have already built a huge industry. You can buy "I hate Hillary" T-shirts, mugs, mouse-mats and even jock-straps. You can sound off in websites such as BlogsAgainstHillary.com. You can peruse a library of Clinton-hating books that accuse her of everything from lesbianism to murder. That industry is about to get a lot bigger.

Mrs Clinton has worked hard to defuse Hillary-hatred over the past six years. She has remodelled herself as an impeccably centrist senator, co-sponsoring bills with prominent conservatives. She has made the right noises about abortion and flag-burning. Above all, she has supported the Iraq war. This rebranding has had some effect in her adopted state: she won 61% of the (generally conservative) vote in upstate New York in 2006. It has also had some effect in the capital: Senator Sam Brownback is just one of a number of high-profile conservatives who have apologised for harbouring hostile thoughts about her.

Yet it would be naive to expect Hillary-hatred to go away. The condition springs from deep emotions on the cultural right. Fears of successful professional women who look down their snooty noses at rednecks and stay-at-home mothers. Hatred of bossy liberals who want to impose a National Health Service and other bureaucratic monstrosities. Disdain for holier-than-thou lefties who ride their husbands' coat-tails to power and wealth.

Add to this the fact that her husband is the most hated person of all to the right—a self-indulgent baby-boomer who nevertheless outran the right-wing lynch mob time and time again—and you hardly have a formula for a ceasefire in the culture wars. "I hate Hillary Clinton because she's Hillary Clinton," writes one blogger, "and I know that my readers can understand that."

Mrs Clinton's support for the Iraq war has also earned her a new set of enemies—on the left. She was roundly booed when she addressed the left-wing Campaign for America's Future last June and rejected immediate withdrawal from Iraq. The left-wing blogosphere regularly berates her for destroying true Democratic values. Cindy Sheehan, an anti-war activist, has even compared her to talk-radio's Rush Limbaugh.

The saner American left is at last waking up to the fact that Hillary was never the radical firebrand of conservative caricature. She has always been pro-business (her much demonised health-care reforms rejected the Canadian single-payer model and enjoyed the support of many businesses that were worried about escalating health-care costs). She has always been deeply religious, and even contemplated becoming a Methodist minister. She supported welfare reform. If the right regards her as a Trojan horse for left-wing liberalism, the left regards her as a Trojan

horse for corporate Clintonism.

How much does Clinton-hatred matter in the race for the White House? Mrs Clinton starts off with unusually high positives: she is beating potential Republican rivals such as John McCain and Rudy Giuliani in head-to-head polls. But she also starts off with worryingly high negatives: in a recent poll her “unfavourables” were as high as her favourables, at 36%. But none of this is insuperable. To become president, Mrs Clinton needs to win only one big state that John Kerry lost in 2004—and Ohio is currently leaning strongly Democratic.

## The not-so-lonely middle

Hillary-hatred is a double problem for the Republicans. It blinds them to Mrs Clinton's strengths: many Republicans live in such a conservative cocoon that they think no sensible American will ever vote for the she-devil. And it brings out everything that is most noxious and misogynistic about the right. Hillary-haters may look forward to reading Jonah Goldberg's forthcoming book, “Liberal Fascism: the Totalitarian Temptation from Mussolini to Hillary Clinton”, but most people just laugh. Hillary-haters may applaud when Jerry Falwell says that a Hillary candidacy would motivate his constituency more than Satan himself. Most people take it as a sign of derangement.

George Bush did strikingly well among white female voters in 2000 (when he got 49% of their vote) and 2004 (when he got 55%, thanks to “security moms”). Fully 2.5% of his 3.5% margin over Mr Kerry was accounted for by his increased vote among white women. A misogyny-fuelled campaign against Mrs Clinton could send women back to the Democrats in their millions.

Mrs Clinton is also well equipped to deal with conservative attacks. She is a veteran of the Clinton wars of the 1990s (her chief pollster estimates Republicans have spent $135m campaigning against her). She is a savvy street fighter who invented the term “war room” and can call on the help of some of the dirtiest bruisers in the business.

Mrs Clinton may also be able to use left-wing anti-Clintonism to her advantage—triangulating between the crazed left and the foaming right. Her recent manoeuvring on the Iraq war—she is talking of a bill to cap the number of troops in Iraq but continues to oppose withdrawal—has led to accusations that she is too cautious and calculating for her own good.

But Mrs Clinton remains relatively hawkish on foreign policy for a Democrat. She continues to argue that the most important problem facing the world is not global warming (the default position on the left) but weapons of mass destruction and borderless terrorists. And her coolness and calculation may not go down so badly after the impetuousness of the Bush years. Mrs Clinton recently told the *New Yorker*, with a touch of the self-righteousness that so infuriates her critics, that on Iraq “I find myself, as I often do, in the somewhat lonely middle.” That middle may not prove so lonely come 2008.

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Crime in Mexico

# The tough get going

Jan 25th 2007 | MEXICO CITY
From The Economist print edition

**The new president has sent the army after the drug mobs. More importantly, he has started to reform the police**

AP

Get article background

HE TOOK office as Mexico's president only on December 1st, but Felipe Calderón has lost no time in putting pressure on the country's powerful drug gangs. Last month he dispatched 7,000 troops and police to the central state of Michoacán. Forces of similar size have since been sent to Tijuana on the northern border, and to the Pacific resort of Acapulco. On January 19th, the government extradited four drug kingpins and a dozen lesser figures to the United States for trial. Notably, they included Osiel Cárdenas, the head of the so-called “Gulf Cartel”, by far the most powerful drug gangster to be extradited so far.

This flurry of action responded to a “real anxiety in some parts of the country” that organised crime was “out of control”, Mr Calderón told *El País*, a Spanish newspaper, this week. There were 2,100 drug-related murders last year, up from 1,300 in 2005. Some 600 killings took place in Michoacán alone in 2006. Many of the murders involved brutal cruelty: in a notorious case, five severed heads were dumped in a dance hall in Michoacán. Much of the violence stems from a turf war between the Gulf Cartel and its main rival, based in Sinaloa. Paradoxically, this was triggered by arrests made by the previous government of Vicente Fox.

Two things compound the problem. The first is the continuing demand for drugs across the border in the United States. The second is that during the seven decades of rule by the Institutional Revolutionary Party, defeated by Mr Fox in 2000, the main objective of policing was political control rather than crime fighting.

That is why Mr Calderón turned to the army. The first thing the troops did on arrival in Tijuana was to disarm the local police, confiscating their guns for ballistics tests to check whether they had been used in murders. Like many ill-paid local forces in Mexico, the Tijuana police are widely regarded as working for, rather than against, the drug mob.

The risk, of course, is that the army becomes corrupted. But unlike Mr Fox, Mr Calderón is moving swiftly to shake up the police. As a first step, the federal police is being expanded and re-organised in the public-security ministry. The Federal Agency of Investigation (AFI), a newish and relatively uncorrupt police force modelled on America's FBI, has been transferred to the ministry from the attorney-general's office. It is being merged with another force, the federal preventive police.

The security minister, Genaro García Luna, was the commander of the AFI and is a career detective. He says that 10,000 soldiers have been transferred to his control, giving him a force of just over 30,000. A national motor-vehicle registry, which Mexico has previously lacked, should be up and running within a year. Mr García wants to establish benchmarks for police performance, at both federal and local levels, in order to increase accountability. He also wants to regulate Mexico's 140,000 private security personnel.

Some of these changes, such as formalising the transfer of the AFI to the ministry, require legislation. Mr García says the government will send a bill to Congress in a month or so; it has a good chance of being approved. The government also wants to reform the local police. On January 22nd, Mr García signed an agreement with Mexico's 32 state governors that will give him powers to intervene in local forces. It is not clear whether money will be available to increase police wages, which average around $500 a month, although the government has increased soldiers' pay.

Some of the government's opponents dismiss the military operations as political grandstanding. But even if the message they send is partly symbolic, it is an important one. So far they have yielded no accusations of systematic abuses and one or two significant arrests.

The difficulty is what comes next. Mr García says that the federal forces will be deployed for several more months—at least for long enough for the local forces to be investigated and re-trained. It is, of course, impossible to imagine that Mr Calderón will achieve total victory over the country's drug industry. But he might at least manage to reduce the degree of impunity with which it operates.

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Brazil's economy

# Stirred, but not shaken up

Jan 25th 2007 | SÃO PAULO
From The Economist print edition

**A long-awaited package to boost economic growth is overly timid**

A BIT more public investment, a dash of tax relief and a promise to contain the growth of current spending: those are the main ingredients of a ballyhooed "growth-acceleration package", which Brazil's government finally announced on January 22nd. "The time has come to break barriers and overcome limits," declared the president, Luiz Inácio Lula da Silva, presenting a plan that he hopes will set the tone of his second four-year term in office, which began this month. In his first term, Lula opted to maintain Brazil's hard-won economic stability. The package does not jeopardise that. It is intended to address the country's mediocre economic growth (see chart).

Industry paused from grumbling about crushing taxes and interest rates and the overvalued currency to praise the package. It alone will not produce sharply higher growth but "it goes in the right direction," says Armando Monteiro, president of the National Confederation of Industry. Others say that it does not attack the cause of low growth: excessive spending and debt, which depress investment by keeping taxes and interest rates high. "The main constraints are untouched," says Mailson da Nóbrega of Tendências, a consultancy.

The package calls for investing an impressive-sounding 504 billion reais ($236 billion) in infrastructure and housing over the next four years. Taxes are to be cut by a less-impressive 6.6 billion reais this year, and 11.5 billion reais in 2008. The cuts are targeted at construction, infrastructure and small businesses.

To restrain current spending, which has grown faster than the economy, the government proposes new caps for two of its main components. The minimum wage, which is also the floor for publicly financed pensions, will rise in line with inflation and the economy's growth. The government's wage bill will rise by no more than 1.5% above inflation. Officials say that these caps mean that the government payroll will fall from 5.3% of GDP to 4.7% by 2010, while pension spending would remain steady, at about 8% of GDP.

On closer inspection, the package loses some of its lustre. Most of the promised investment is what state-owned companies were already planning to spend, and what the government hopes private enterprise will. Just 68 billion reais is investment by the federal government. Nearly all this year's tax cuts were already enacted; there is just 1.4 billion reais of new relief.

The government cannot offer more, because it has not yet curbed spending. Lula has already decreed a 9% rise in the minimum wage for this year. The new wage caps must be approved by legislators who tried to raise their own salaries by 90% last month (but were thwarted by the supreme court). Instead of proposing a pension reform, Lula plans to summon a "forum" to discuss it. Mr da Nóbrega notes that a similar body failed to liberalise labour laws during his first term.

Rather than slash current spending to make room for extra public investment, the government may cut its primary surplus (ie, before interest payments) from 4.25% of GDP, until now its main fiscal target. Public debt would continue to fall as a share of GDP, but more slowly, hindering Brazil's progress towards an investment-grade credit rating. The government now stresses the overall deficit, which is to fall from 1.9% of GDP this year to 0.2% in 2010. But that prediction rests on rosy assumptions: a robust world economy and, less likely, a near doubling of growth.

The package's main virtue may be to goad the government into executing projects rather than merely talking about them. The projects are now part of a plan that the government will monitor, officials insist. They want to streamline procedures for issuing environment licences, now an obstacle to investment. Last month, the government halted plans to get private investors to maintain seven main highways. Now, apparently, it wants to revive this scheme. Investors in infrastructure will get tax breaks and cheap money from state banks. The government also wants state companies to operate on private-sector lines, to boost competition.

Will the package succeed in raising growth? It may help at the margin. More important is the effect of stability. Low inflation and falling interest rates—the Central Bank cut its benchmark rate on January 24th by a quarter-point to 13%—mean that government bonds are no longer the only sane investment option. The stockmarket has seen many new share offerings. Mortgages doubled last year, but are still puny at less than 4% of GDP. Now construction companies are rushing to list on the stockmarket, capitalising on the twin manias for shares and property. Slowly, rather than through any swift barrier-breaking, Brazil may shake off its torpor.

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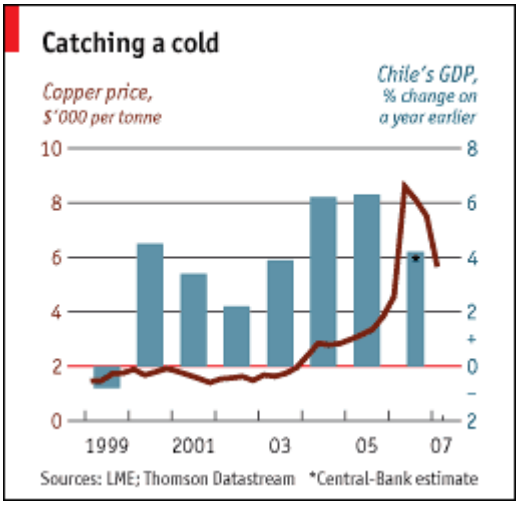
Chile's economy

# Corseted

Jan 25th 2007
From The Economist print edition

**Too virtuous for its own good?**

Get article background




EARLIER this month, after two years of gradual interest-rate rises, Chile's Central Bank announced a surprise quarter-point cut in its benchmark rate, to 5%. Yet rather than injecting confidence, the move seemed only to confirm the suspicion among many Chileans that something is amiss in what has long been Latin America's star economy.

Last year, the economy grew by a respectable 4.2%, the Central Bank estimates. But that was down from over 6% in each of the previous two years—and below the Latin American average. What made the slowdown all the odder was that the price of copper, Chile's main export, reached a record high last May. It has since tumbled, but remains well above its level of the late 1990s (see chart). What has gone wrong?

Officials point to several one-off setbacks. Not only did energy prices rise, but also Argentina cut natural-gas exports to Chile, forcing some factories and power utilities to switch to costlier imported fuels. Bad weather hurt farming. Copper output stagnated, because of a strike at the largest mine and a rock fall at another. Others say that the copper-induced appreciation of the peso played a part.

Investment is picking up again after a brief lull, according to the finance ministry. The (independent) Central Bank expects growth of 5-6% this year—above most forecasts for Latin America as a whole. Even so, the slowdown has prompted a debate over whether Chile's fiscal policy is too virtuous.

The previous administration introduced counter-cyclical budgeting by a fiscal rule. This mandates a budget surplus of 1% of GDP if the copper price is at its long-term forecast level and the economy is growing at its underlying potential rate. Conversely, it means that, unlike most Latin American countries, Chile can increase public spending in a recession.

The upshot has been that the government, headed since last March by President Michelle Bachelet, has stashed away most of the copper windfall. Her officials decided to save much of it overseas, in two new investment funds. That has prevented the peso from appreciating even more. Another benefit is that the rule allows the government to distinguish permanent from temporary income, says Andrés Velasco, the finance minister.

But many Chileans believe that the rule is too tight. The government has repaid much of its debt to the Central Bank, which arises from a banking collapse in 1982-83. It should be able to meet its pension liabilities with ease: thanks to the copper windfall, the government is now a net creditor, to the tune of 6.2% of GDP. All this suggests that the rule's 1% surplus could be gradually reduced to zero. “It's like a house when you've installed sprinklers and firewalls, you no longer need to carry so much insurance,” says Mario Marcel, who as budget director in the previous government helped to design the rule.

The government “hasn't been aggressive enough in using copper resources to increase Chile's international competitiveness,” echoes Felipe Larraín of the Catholic University, one of a group of 20 economists who last year published a paper calling for the loosening of the rule. He favours more spending on education, and tax breaks for research and development.

Others counter that loosening the rule when copper prices are still high would send a dangerous message of laxity. They point out that public spending is budgeted to rise by 8.9% this year, even as the government meets the 1%-surplus rule. But none of the group of 20 can be accused of being economic dissolutes. They may be right that Chile can loosen its corset a notch without falling back into the fiscal vices which were for so long the Latin American way.

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Cuba

# Dr Diplomat

Jan 25th 2007 | HAVANA AND WASHINGTON, DC
From The Economist print edition

**Exporting medicine and influence**

Reuters

**A miracle of Cuban know-how and Venezuelan oil money**

IT MAY be the world's largest medical college. The Latin American School of Medical Science, on the western edge of Havana, has 10,000 students, making it nearly ten times the size of its largest equivalent in the United States. The students are all foreigners: most are from elsewhere in Latin America, but they include 91 Americans. The school is one of several ways in which communist Cuba is using its medical prowess to win friends abroad.

That prowess has been questioned by some of the regime's opponents because of unofficial reports that Fidel Castro, Cuba's president, has undergone three failed operations for diverticulitis (a swelling of the wall of the intestine). But there is as yet no reason to blame the president's doctors for his health problems.

The medical school was founded in 1998. Only two classes have so far graduated from its six-year programme. Its buildings are not imposing; many of its students are dispersed on satellite campuses around Cuba. But tuition, accommodation and board are all free.

The school is only one aspect of Cuba's commitment to exporting medicine. Another is the deployment of Cuban doctors overseas. Hundreds were sent to Central America in the aftermath of hurricanes and other natural disasters in the 1990s. More than 15,000 doctors and dentists are working for Hugo Chávez's government in Venezuela, in a Cuban-designed family-doctor programme. Others have been sent to Bolivia, to support Evo Morales's government, and to Ecuador. More may go to Nicaragua, and to Ecuador: both countries recently elected presidents friendly to Mr Castro. Farther afield, Pakistan's prime minister this month singled out Cuban doctors for their help after a 2005 earthquake which killed some 74,000 people.

In all, about one in three of Cuba's doctors is working abroad at any given time, according to Daniel Erikson of the Inter-American Dialogue, a think-tank in Washington, DC. At the same time, increasing numbers of foreigners are coming to Cuba for operations. This began as a foreign-exchange earner in the 1990s. More recently, Mr Chávez and Mr Castro set up “Operation Miracle”, a scheme under which Venezuela pays for thousands of poor Latin Americans to undergo cataract and other eye operations in Cuba.

This medical diplomacy brings Cuba clout abroad but it causes grumbles at home. Cuba has two and a half times as many doctors per head as the United States. Even so, with so many working abroad, some clinics in Havana are understaffed and others have closed. Drugs and medical equipment are in short supply in the island's hospitals, say the medical students. That is something that Mr Castro's successors may face pressure to redress.

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Bird flu in Asia

# Coming home to roost?

Jan 25th 2007 | BANGKOK, BEIJING, SEOUL AND TOKYO
From The Economist print edition

Reuters

**Bird flu has flared up again in Asia, reminding the world it is still at risk from a human flu pandemic**

Get article background

THE deadly H5N1 strain of bird flu, which kills people as well as poultry, has broken out across a broad sweep of eastern Asia this month, from South Korea down to Indonesia (see map). Since the disease re-emerged four years ago, Asia's governments, backed by a plethora of United Nations agencies, have tried hard to stamp it out. But on January 22nd the boss of the World Health Organisation (WHO), Margaret Chan, said it would still take years to bring it under control. The approaching Chinese New Year and Vietnamese Tet festivals may help spread the flu farther, as poultry are brought in from the countryside to Asia's cities in unusually large numbers.

Hundreds of millions of birds have already died or been culled because of the disease since 2003. This week, from Japan to Java, further mass slaughters were under way. Millions of Asians depend on the poultry trade, and far more keep chickens and ducks in their backyards to supplement their diets, so the outbreak is already a big worry. The UN's Food and Agricultural Organisation (FAO) reckons H5N1 has cost South-East Asia's poultry farmers $10 billion since 2003.

Yet more worrying is the danger that H5N1, which mutates rapidly, could acquire the ability to pass easily from person to person. This could cause a global flu pandemic as devastating as the one in 1918, which killed tens of millions. The bleakest projections suggest that a global pandemic could kill up to 360m people. So far, only 163 people worldwide have died from the virus—mostly in Indonesia, Vietnam, Thailand and China. Most are known to have had contact with infected birds. In 2006 the virus became deadlier, killing 70% of the people who caught it.

Much work has been done since H5N1's return in 2003. Thailand, a big poultry exporter, is praised by international experts for the improvements it has made, with the help of 800,000 local volunteers, to its monitoring of the disease. But the latest outbreak is prompting tougher measures. Indonesia's capital, Jakarta, is banning households from keeping chickens in the backyard, as many do. Like Jakarta, Bangkok is considering moving its poultry markets and abattoirs out of residential areas.

Laurence Gleeson of the FAO says it may prove difficult to win public backing for such drastic moves. In Ho Chi Minh City, Vietnam's largest, fowl are reportedly being smuggled in motorcycle panniers to avoid tightened checks. The best incentive for co-operation is swift compensation, at market rates, for any birds surrendered, live or dead. Indonesia is offering the equivalent of $1.38 for each bird but, this week, President Susilo Bambang Yudhoyono expressed concern that local authorities were being slow in coughing up. There are similar concerns in China: officials have been loth to cull birds in some affected areas because of the cost of compensating farmers. China is promising to spend $1 billion over the next two years to wipe out bird flu and other animal epidemics. But the agriculture ministry is accused of not reporting all outbreaks, and of being slow to investigate others—not wanting to look incompetent, while actually exacerbating the problem.

The virus spreads by various means and it is often difficult to pinpoint the cause of any particular outbreak: for instance, it is unclear why it has re-emerged in Japan after three years' absence. The South Korean authorities suspect migratory birds, which can carry the disease over thousands of miles, caused their current outbreaks; and indeed, H5N1 has been found in wild birds in Hong Kong this month. Other experts think the threat from wildfowl is exaggerated. The disease can lurk unnoticed in domesticated birds for long periods. It may more often be spread, including on the tyres of vehicles, when poultry are sent to market.

Indonesia, China and Vietnam are using the mass vaccination of poultry flocks to try to halt the virus's spread. Thailand and South Korea have so far rejected this, arguing that the vaccine is not 100% effective, so inoculated birds may still carry the virus. Shiro Yoshimura of the UN's World Organisation for Animal Health says the right decision depends on many factors. Countries with small, localised outbreaks, with enough people to inspect farms and enforce quarantines, might reasonably decide that mass vaccination is unnecessary.

Governments are also stockpiling Tamiflu, a treatment that can save the lives of people with H5N1. But even Asia's richest countries are far from having enough for everyone. South Korea has just 1m doses for a population of almost 50m. The virus's rapid rate of mutation also makes it extremely difficult to develop a vaccine against it, says the WHO's Takeshi Kasai. Only perhaps three to six months after the start of a human pandemic would small quantities of vaccine become available.

International agencies such as Unicef, the UN's children's fund, are spending heavily on publicity campaigns across Asia, explaining how people can help stop H5N1's spread. But many Asians have heard such warnings before—about severe acute respiratory syndrome, or SARS, another deadly disease, as well as bird flu. In past outbreaks many overreacted, reining in their travelling and spending, causing serious economic damage. Since doom-laden predictions have yet to come true, the danger is that people become blasé.

Though Asian governments have, by and large, taken the bird-flu threat seriously, there is also a risk that they will be distracted by their many other problems. Indonesia is a particular worry. It is hard enough for the government of a huge, decentralised and mostly poor archipelago of 17,000 islands to control a potential epidemic. But in the past week alone, the country has suffered no fewer than three earthquakes, and hospitals in the area around Jakarta have reported a surge in cases of dengue, another fast-spreading and often deadly disease.

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China and space

# Stormy weather

Jan 25th 2007 | BEIJING
From The Economist print edition

**The test of an anti-satellite weapon rattles China's potential enemies**

Get article background

AP

**Shooting for the moon**

FIFTY years ago, Mao Zedong lamented that China could not even launch a potato into space. Now it has succeeded in hitting a weather satellite more than 800km (500 miles) above Earth with a ballistic missile fired from the ground. Few other countries are cheering.

China's prolonged silence about its destruction of the *Feng Yun* 1-C satellite, which it launched in 1999, has been almost as unnerving to its potential enemies (America, Japan and Taiwan especially) as the experiment itself. It was only this week—12 days after the event—that China grudgingly admitted that it had tested something in space. This has led to speculation that, as with an outbreak of severe acute respiratory syndrome, or SARS, in military hospitals in 2002-03, the army has not kept all arms of government informed. With the satellite, China still will not describe openly what actually happened.

A foreign-ministry spokesman insisted that China would not engage in an arms race in space. Yet it is hard to see the test other than as a display of China's ability to challenge American space power. It has triggered a chorus of complaint from Western powers, as well as from neighbouring Japan and Taiwan. China says it did brief American and Japanese officials, among others, on what happened—but not, it appears, until just before it confirmed the test to the press.

China will doubtless insist that the Americans can hardly complain. America and the former Soviet Union tested anti-satellite weapons, albeit more than 20 years ago. George Bush has refused to talk to China about a proposal it raised in 2002, with Russia's backing, for a treaty outlawing the “weaponisation” of space. Mr Bush authorised a new national space policy in August last year that irked the Chinese. It defended America's right to use space for defence and intelligence gathering purposes as well as to stop “adversaries” from using space in ways that threaten American “national interests”.

China's aim is to signal to America and its protégés in Asia—Taiwan and Japan especially—that it has ways of countering the space-based technology on which America's armed forces rely so heavily. China worries that its strategic nuclear arsenal could be rendered useless by an American missile-defence system with space-based components. The anti-satellite test may not prove that China can thwart such efforts, but it can certainly complicate them.

America has long suspected China of developing anti-satellite technology. Last September, reports emerged that China had been pointing high-powered lasers at American spy satellites. The apparent aim was to test an ability to blind them. One reason cited by the Americans for not negotiating a treaty is that it would give an edge to countries (for which, read China) that are trying to hide their efforts to build weapons for use in space.

China is also being driven by national pride. Its civilian space programme is aimed partly at showing that it can achieve what the Americans and Russians have done. This year it plans to launch a satellite that will orbit the moon as part of preparations for an eventual lunar landing (after 2020, officials say) by a Chinese citizen. Next year it says it will launch its third manned spaceship into orbit around Earth. A Pentagon report last May referred to China's “rapid and relatively smooth rise as an emerging space power”.

But China is taking a risk. The test and the secrecy surrounding it will do nothing to reassure other countries that China's rise is, as it frequently insists, peaceful and a threat to no one. Taiwan, ever quick to take advantage of international displeasure with China, announced that China had deployed some 900 missiles on the coast facing the island in recent years. Last August it had put the figure at 820. At worst China's test could accelerate an arms race.

Nor will the test foster closer co-operation between Western and Chinese civilian space programmes. Last September, in a tentative warming between the two sides, Michael Griffin of NASA paid the first trip to China by a

head of the American government's space agency. Now American officials complain that China could have put other spacecraft in danger by littering space with debris. “If your opponent is of choleric temper, seek to irritate him,” said Sun Tzu, a Chinese military strategist whose writings 2,500 years ago are still often cited in China today. China has certainly mastered that axiom.

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India's special economic zones

# A peasant surprise

Jan 25th 2007 | GAR CHAKRABERIA
From The Economist print edition

**A scheme to provide land for industrial development hits the skids**

Get article background

REACHING villages in eastern Midnapur, 120km (75 miles) south of Kolkata, where a branch of the Ganges runs into the sea, has become an ordeal. Trenches have been cut into the approach roads and bricks and palm-trunks piled over them; no vehicle bigger than a motorcycle can pass. Beside the barricades, black rags hang from bamboo flagstaffs—in honour, the locals say, of half a dozen villagers killed this month in a battle with the state government's goons. At the entrance to one village, Gar Chakraberia, a burnt-out police van bears their epitaph: “We will never let industry take our motherland.”

The cause of the conflict is a plan by West Bengal's Communist government to grant land to an Indonesian conglomerate, the Salim Group, which wants to build petrochemical plants over Midnapur's fishponds and paddy fields. The group has been promised 9,000 hectares (22,000 acres) in the form of two special economic zones (SEZs)—havens for export-driven industry, with light taxation and other perks. The government hopes that, as in China, SEZs will boost the development of infrastructure and manufacturing. Since it passed a law offering improved terms for investors in the zones last year, 63 have been approved, 237 have been all but approved and over 400 are being considered.

Or perhaps not. This week the government froze the approval process. SEZs have been attacked on many fronts: by social activists, opposition politicians and even some government members. But the fiercest critics are those defending the right of farmers to their plots—what even Palaniappan Chidambaram, India's finance minister, calls “the sacred tie between the tiller and the land”.

In a poor agrarian country, the charge of bullying farmers to pander to big business can be a winding blow, especially as the ruling coalition, led by the Congress Party, relies on the Communist parties for its parliamentary majority. Not coincidentally, West Bengal has been ruled for 30 years by the Communists, who until a few years ago opposed most industrialisation. The West Bengal opposition is now relishing the chance to accuse the commies of cosying up to capitalists at the expense of the peasantry. “In a Communist state, sir! The poor peasants are being shot with bullets by the Communist party police,” says Madan Mitra, a leader of the opposition Trinamul Congress Party. With elections looming in four other states, including the most populous, Uttar Pradesh, the central government will not rush to unblock SEZs.

They might also make a few populist changes to the rules before they do so; but that need not be bad. Many wise men think the scheme badly designed, including many at the finance ministry, which has said it will cost the state 1,750 billion rupees ($39.6 billion) in foregone tax revenues by 2011. The government might meet criticism of rules allowing firms in SEZs to sell some goods on the domestic market by raising the cost to them of doing so. And it might increase the proportion of an SEZ's area (at present just 35%) reserved for manufacturing. The rest might be used for shopping malls and housing for India's swelling middle classes—hardly justification for a subsidy, let alone for occupying the ancestral lands of poor farmers. The government of West Bengal has said it will raise the limit. It has also paid peasants more than the law obliged for their land. But its opponents, defeated at the past seven elections, will not let go.

Still, freezing the SEZs looked dreadful. The top civil servant in India's commerce ministry, G. K. Pillai, talks not of the tax implications but of estimates that the new SEZs would bring $13.5 billion in investment and 890,000 jobs by 2009 if allowed to proceed. He reckons they will be: the 63 recent SEZ approvals have not been withdrawn. The almost-approved SEZs, he predicts, will be delayed only a month or so; but this sounds optimistic.

Visionary industrial plans in democratic India are fated to turn messy and become bogged down in political compromises. But they can be worth doing. On January 21st, Tata Motors broke ground on a new factory at Singur that took the land or jobs of at least 14,000 farmers and sharecroppers, and has drawn as much fire on the state

government as any SEZ. Despite lingering protests, most of the dispossessed have been pacified and paid off. If all goes to plan, the plant will create 1,500 new jobs and, in 15 months, at around $2,200, the world's cheapest car.

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Islamic extremism in the Philippines

# Death of a bandit

Jan 25th 2007 | MANILA
From The Economist print edition

**The Abu Sayyaf's leader is dead. But the Islamic-extremist group may survive**

TO THE glee of President Gloria Macapagal Arroyo, the Philippines armed forces announced on January 20th that they had proof that Khaddafy Janjalani, the leader of the Abu Sayyaf, was dead. The Abu Sayyaf is a bunch of vicious armed Muslims whom America regards as Islamic terrorists. Janjalani's demise "marks the mortal turning point for the Abu Sayyaf," said the president. She might be speaking too soon.

The armed forces said DNA testing had confirmed that remains found on the southern island of Jolo last month were Janjalani's. They believe he was killed in a firefight with soldiers there in September. Just days earlier the armed forces said they had killed another top Abu Sayyaf figure, Abu Sulaiman. America had offered rewards of $5m for each of the men.

AP

**Janjalani (left) at work**

The 300 or so gunmen that make up the Abu Sayyaf operate mainly in the extreme south-west of the country. They have carried out numerous murders, kidnappings, robberies and bomb attacks since the early 1990s, including the firebombing of a ferry in 2004 that killed more than 110 people.

For years, the armed forces have been trying to wipe out the Abu Sayyaf. With the death of Janjalani, the government scents victory. Several thousand troops are deployed in the south-west to chase the gunmen into the hills and forests where they hide. But the Abu Sayyaf's resilience is due in large measure to its roots in the warrior culture of an impenetrable region where, for centuries, no government has managed to hold sway. There are others capable of taking Janjalani's place.

The group, which is already splintered, may now split further into gangs of simple bandits. The Abu Sayyaf has always appeared more interested in making money than in pursuing its ostensible aim of independence for the Muslim minority in this predominantly Christian country. Even the bombing of the ferry in 2004 was probably part of an attempt to extort money from the shipping line.

But even as bandits, the Abu Sayyaf would be a political threat. The group is believed to harbour two Indonesians suspected of involvement in the bomb attacks in Bali in 2002. On January 22nd at least 16 people died as police on the Indonesian island of Sulawesi arrested extremists from the Jemaah Islamiah group. The government does not wish to see lawless parts of the southern Philippines become a refuge for such groups, not least because they could encourage further militancy among Philippine Muslims. So the fight against the Abu Sayyaf will drag on to the bitter end, however far off that may be.

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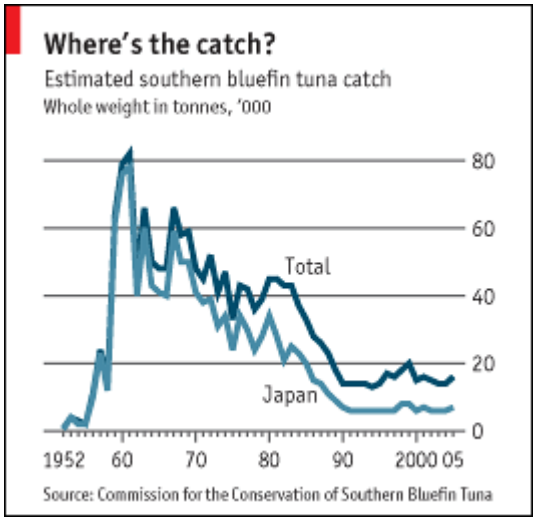
Tuna conservation

# Fins with the blues

Jan 25th 2007 | TOKYO
From The Economist print edition

**Japan finds itself on the other side of a conservation debate**




FEW Japanese would go out of their way to eat whale meat. Most would defend their country's right to harpoon cetaceans to the edge of extinction. But that is more out of resentment at the cultural imperialism of the anti-whaling countries than any memory of the role whale meat played in feeding a starving nation after the war. But when it comes to tuna, most Japanese would go a long way for a morsel of *o-toro*. Now that tuna risk going the way of the whales, the Japanese are among the first to start clamouring for conservation.

At a 60-nation gathering in Kobe this week, Japan urged the world's tuna conservation organisations to join forces in curbing "purse-seine" fishing, which uses large, circular nets that catch everything in their path. Japan, along with Australia and America, also proposed a global monitoring system—in a bid to protect the world's tuna stocks.

Widespread illegal and unregulated fishing has pushed tuna stocks near to utter destruction. According to the United Nations' Food and Agriculture Organisation, the global tuna haul increased steadily from 200,000 tonnes in the early 1950s to peak at 4.3m tonnes in 2003. Catches are now falling and prices rising—thanks largely to an insatiable demand for tuna, canned and raw, from health-conscious Americans and Europeans, and now from affluent Chinese as well. Meanwhile, as tuna prices soar, more fishing vessels put to sea.

In the western Atlantic, the number of mature blue-fin tuna—the most prized member of the species reserved for the best *sashimi* and *sushi*—that are capable of spawning has fallen by 90% since 1970. In the Mediterranean, stocks of blue-fin tuna have crashed by 80% over the past three years alone. The southern blue-fin has been so heavily over-fished, especially by Japanese fleets, that quotas have had to be lowered by a further 20% all round. In return, Japan has agreed to cut its own blue-fin take by 50% annually for the next five years.

As the biggest consumers of the blue-fin delicacy, the Japanese could find themselves priced out of the tuna market and forced to eat something else. On hand, thanks to the number of minke whales caught annually for "scientific research", is a whale-meat mountain that at present is going to waste.

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Nepal

# A second front

Jan 25th 2007 | KATHMANDU
From The Economist print edition

**Ethnic violence threatens Nepal's new-found peace**

THE peace process in Nepal passed important landmarks this month as former Maoist rebels joined an interim parliament and started putting their guns into storage. Yet even as a final settlement to that insurgency remains distant, the country is faced with another cause of violence: ethnic strife in its southern plains next to India, a region known as the Terai.

The two conflicts are connected. Ten years of Maoist insurgency have made many Nepalis more assertive and convinced some of the merits of political violence. Also, the peace process will involve a constitutional assembly, for which elections are due in June. The ethnic group known as Madhesis, who dominate the Terai, fear they will be cheated.

Nepal's censuses have always underestimated Madhesi numbers. Ethnically and culturally, they are indistinguishable from the Indians across the border. They probably make up more than 40% of the population but are barely represented in the bureaucracy, army or police and their “Nepaliness” is constantly questioned. Ahead of the elections there is a drive to give millions of Madhesis the citizenship they lack, allowing them to vote. But Madhesi politicians complain that constituencies are gerrymandered so that “one hill vote is equal to 20 Terai votes”.

The Terai is volatile. A breakaway faction of ex-Maoists, the Terai People's Liberation Front, is waging a violent campaign for independence. In December a campaign for Madhesi rights in the town of Nepalganj turned into communal violence as hill-people sacked and burnt Madhesi businesses in a two-day spree, condoned by the local authorities. This week there were demonstrations, daylong curfews and five deaths in the central Terai after a Maoist shot dead a Madhesi protester.

Fanning the flames is the monarchy, all-powerful a year ago in what was the world's only Hindu kingdom, but now at risk of abolition. By sowing communal tension, the palace may hope to postpone the election. Consistent accounts place royal agents in the Terai stirring things up, as well as in India, appealing to religious fanatics by linking the future of Hinduism, Madhesis and the royal family. Hridesh Tripathi, a cabinet minister who leads a Terai-based party, says it is to be expected that the palace “will use all forms of conspiracy”. The Madhesis' grievances give the plotters some fertile ground.

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Iraq

# May the government at last rein in the Shia militias?

Jan 25th 2007 | CAIRO
From The Economist print edition

AP

**There is a glimmer of hope that the prime minister has changed heart**

Get article background

LAST May, Iraq's newly-chosen prime minister, Nuri al-Maliki, declared his government's intention to “put an end to the militias” believed to be responsible for most of the country's hideous sectarian violence. Since then, as bodies have piled up in their thousands, it has become plain that most of the killers were members of the Mahdi Army, tied to a radical Shia movement led by Muqtada al-Sadr and a key partner in Mr Maliki's government.

Last August, this correspondent watched a flustered Iraqi battalion commander take a stream of telephone calls from the Ministry of Defence telling him to free a bunch of suspected kidnappers who had been brought in the night before by American forces and who worked at the Ministry of Health, a Sadrist fief; almost certainly, they were freed. Such protection helped ensure that American-Iraqi plans to secure the capital failed, with Sunnis fleeing from many of Baghdad's mixed districts and Shia families moving in.

Mr Maliki seems loth to say so outright, but both American officials and some of his aides have been telling journalists he has had a change of heart and has authorised a full-fledged crackdown on the militias. The American army says that 16 Mahdi Army commanders have been captured in recent weeks (out of a total of 22 arrested since October), and that American and Iraqi forces have carried out 52 operations against Mahdi Army targets in the past 45 days, compared with 42 against Sunni insurgents. Some 600 Mahdi Army members, the Americans say, are now awaiting trial. The Sadrists themselves say they are under siege, their military commanders on the run and no longer using mobile phones; their black-clad fighters, who used to patrol the streets of Shia districts like Baghdad's vast Sadr City slum in lieu of the police, are lying low.

What has changed? The American ambassador to Iraq, Zalmay Khalilzad, says that Mr Maliki has lost patience with trying to engage the Sadrists through dialogue, and has decided to “change the mix” to less talk and more arrests. Mr Maliki may also have been emboldened by the death of Saddam Hussein. However barbaric his execution, with at least one of the hangmen chanting a Sadrist religious invocation before the trapdoor opened, it seems to have reassured Shias that their political dominance as Iraq's largest sectarian block will be permanent. After eight decades of exclusion from power, many of them feared that the West would connive with Iraq's Sunni Arab neighbours to put a revamped Baath party back into power. Hussein's execution has convinced them that Sunnis no longer control Iraq's destiny. It has also boosted Mr Maliki's standing in his own community.

While Mr Maliki's popularity among Shias has risen, he seems unabashed by the decline in his standing among Iraqi Sunni Arabs: his efforts to conciliate Sunnis at home have made little headway, irrespective of Hussein's demise.

But he may be more rattled by the drop in his reputation abroad. For most of last year, the Americans have been

telling him that the Shia militias were their main worry; American officials have been hinting ever more broadly that, if Mr Maliki did not rein them in, his government and fledgling army might lose American support. Meanwhile, Saudi Arabia, Jordan and other Arab states are getting angrier about the slaughter of their fellow Sunnis. If Mr Maliki fails to stem the slaughter, his government may lose its chance to persuade the Gulf states to forgive billions of dollars of debt. Even worse, Sunni states such as Saudi Arabia may actually start backing Iraq's Sunni fighters.

The Sadrists themselves may be changing heart too. Mr Sadr never seemed happy with the sectarian cleansing carried out by groups acting in his name and has struggled to control his loose-limbed movement. The Sadrists had always called for Sunni-Shia unity against the foreign occupier, and after insurgent attacks in the past had tried to prevent reprisals against Sunnis by declaring that they held the Americans responsible. More recently, Mr Sadr has told his followers not to attack American or Iraqi security forces, and has railed against Sadrist commanders who have disobeyed those instructions. So far he has failed to respond to the arrests of many Mahdi Army leaders in the past six months, suggesting he may have acquiesced in the Americans' effort to prune his movement of rogue commanders.

At the same time, much of Mr Sadr's appeal is due to his success in tapping into the Shias' hostility to the American presence, so he has plainly been loth to let his militias be dismantled altogether. In October, they persuaded Mr Maliki's government to make American troops lift a blockade of Sadr City, where it was believed a kidnapped American soldier was being held. This week, by contrast, the Sadrist movement reacted quite mildly to the increasingly widespread arrests and also made a conciliatory gesture to Mr Maliki's government: several leading Sadrist politicians declared they would end a two-month boycott of parliament. The Sadrists may calculate that, just as Iraq does not want to be a pariah in the Arab world, they do not want to become a pariah among Shia Islamists for having made it so.

Most likely the American and Iraqi forces will go on arresting specific Mahdi Army commanders but will not directly assault Sadr City. The Americans admit they cannot put all the militia's estimated 60,000 members behind bars. They hope to buy off many of them through job-creation schemes that have been tried in the past but rarely persevered with. Also, the Americans are setting up outposts in Sunni areas where Shia militias have been particularly active, even though that makes them vulnerable to Sunni insurgents.

The best gauge of success will not be the number of Mahdi Army people arrested but whether the number of bound Sunni bodies with signs of torture that turn up in the morgue, in the Tigris river, or in other favoured dumping grounds begins to dip in the coming months. The outgoing American general, George Casey, says it may not be until late summer that Iraqi civilians start to “feel safe in their neighbourhoods”. That is what President George Bush's promised “surge” of American troops is meant to facilitate.

### Still a city of gloom

But while the Mahdi Army may be quietening down, the Sunni insurgents are not. Hundreds of people, most of them Shias in Baghdad, have been killed by bombings in the past fortnight. Shia civilians may soon start blaming such things on a dearth of Mahdi Army checkpoints for spotting suicide-bombers or on a reduction of Shia militia raids against “terrorist” Sunni mosques. Another devastating Sunni insurgent attack may be enough to persuade Mr Maliki's government to end his new get-tough policy against Shia militias or even provoke Mr Sadr's followers into flooding into the streets to attack Sunnis, Americans, Iraqi government forces or anyone else in their way. Iraq has had many false dawns in the past three years. Mr Maliki's apparent willingness to curb the militias is only a glint of light.

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Lebanon

# Don't blink first

Jan 25th 2007 | CAIRO
From The Economist print edition

**There have been frightening signs of a slide back to civil war**

EPA

IN THE game of chicken popularised on American screens in the 1950s, the first driver to swerve out of danger loses. For the past few months, Lebanon's factions have faced off menacingly, revving their engines and kicking up dust. With the elected government and its bitter opponents each representing roughly half of Lebanon's complex polity, and with outside powers, each with utterly different regional agendas, staunchly backing opposite sides, neither has been willing to blink as the stakes keep rising higher.

The danger of a collision has risen steadily since the opposition pulled ministers out of the coalition government in November, then sent protesters to besiege the office of the prime minister, Fouad Siniora, in the centre of Beirut, the capital. This week, frustrated by his dogged refusal to grant them a veto-wielding share of cabinet seats, the opposition sped straight for the government's headlights. A nationwide strike paralysed most of the country; vigilantes blocked arterial roads and prevented most people from going to work. In many places, pro-government mobs struck back. The violence threatened to spread into all-out clashes of a kind not seen since the bitter civil war of 1975-90.

Adding to the anxiety, the showdown came just two days before some 30 donor countries and agencies gathered in Paris to promise sorely needed debt relief and more aid. Lebanon's sovereign debt tops $40 billion, a sum equal to 180% of its GDP. Even before last summer's ruinous war with Israel added new burdens, such as the need to rehouse some 200,000 people, just servicing the debt ate up two-thirds of state revenues.

In the event, it was the opposition, an odd coalition led by the militant Shia group Hizbullah, that blinked. At the end of an ugly day that saw Beirut shrouded in black smoke from burning tyres, it called off the strike. Three people had been killed and more than 100 injured. Yet this was no victory for Mr Siniora. He showed he cannot yet be physically ousted by mob action, but his foes also sought to show he has lost the consent of half his country.

Lebanon is again so polarised that the day of rage seems only to have reinforced passions. While a pro-government newspaper condemned the strike as a “terrorist operation to take the Lebanese people hostage”, opposition leaders have grimly threatened further escalation.

Both sides represent political factions and sectarian groups that are often justified in the accusations they hurl at each other. In the opposition view, for example, the sight of Hizbullah-hired dump trucks pouring rubble from the war-ravaged, Shia-populated slums onto the streets of affluent, Sunni-dominated West Beirut provided symbolic vengeance for the perceived callousness and corruption of Mr Siniora's government. For his supporters, however, it looked like vandalisation, both of Sunni territory and of the shiny image of Lebanon as a haven of slick cosmopolitanism in a dour region. Moreover, many supporters of the government blame Hizbullah for provoking last summer's war.

Government ministers charge protesters with threatening to wreck Lebanon's chances of securing debt relief. The opposition counters that it is these same ministers who created the debt; they are answered, in turn, by the

argument that it is Hizbullah's relentless militancy that has crippled once-hopeful efforts to leverage loans into investment. Similarly, the government insists that its parliamentary majority gives it a right to rule, but its opponents maintain that the 2005 vote which produced its majority was flawed and that the resignation of Shia ministers puts the cabinet in violation of a constitutional requirement to represent all sects.

Such conundrums point up the peculiar make-up and intractability of the opposing forces. Mr Siniora's coalition includes Druze and Christian warlords, much of the business elite and the bulk of Sunni Muslims, including extreme fundamentalist groups that see more menace in Shias than in an alliance with America. Hizbullah, aligned with and armed by Syria and Iran, and doctrinally loyal to the latter, has found allies in old-time leftists, Arab nationalists, Syrian-backed feudal lords and the Peronist-style Christian populists of Michel Aoun, a former general who led a bloody and quixotic revolt against Syrian forces during the civil war.

### No compromise in sight

What is missing is a leader who might rise above the mudslinging and find common ground. Mr Siniora has valiantly tried to stay calm under pressure and has offered compromises just short of his opponents' maximal demands. But he has failed to project a grand vision that would have to include, for example, fresh elections under a fairer system.

Some weary Lebanese now pin hopes on foreign mediation, with much interest stirred by a flurry of talks between Iran and Saudi Arabia, the region's main Shia and Sunni powers respectively. But a sense of disillusion is all the more sharply felt because it is less than two years since a massive, peaceful and joyous movement promised a better deal for all, following the exit of Syrian troops from the country. As a bitter editorial in one Beirut newspaper commented, regarding the current stalemate, “The contest might be a comedy of errors were it not for the fact that it is being played out in a glass house inhabited by real people who bleed real blood.”

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South Africa

# Let's not upset the generals

Jan 25th 2007 | JOHANNESBURG
From The Economist print edition

**A controversial vote shows how far the country's foreign policy has changed**

Get article background

LESS than a month after taking up its seat (for two years) at the UN Security Council, South Africa created a stir with its very first vote. It was the only country to side with China and Russia in opposing a resolution calling on Myanmar's military rulers to improve their appalling human-rights record. China's and Russia's knuckles are regularly rapped over their own records in this respect, and the Chinese have vested interests in the Burmese junta. So their veto was no surprise. But South Africa's vote seemed odd for a country whose first democratic president, Nelson Mandela, said it would regard human rights as “the light that guides our foreign policy”. Archbishop Desmond Tutu declared that the vote was a betrayal of South Africa's past.

The official explanation is that, although the situation in Myanmar is bad, it does not pose a security risk, so it is beyond the Security Council's mandate. The problem, South Africa argues, would be best tackled in other UN bodies, such as the Human Rights Council. But South Africa's vote may have had less to do with UN procedure and more to do with sending some strong signals about its foreign priorities.

The vote presented a chance for South Africa to “nail its colours to the mast”, says Garth Le Pere of the Institute for Global Dialogue, a local research outfit. That means waving a flag for poor countries to redress the perceived hegemony of the West. China has become a big trading partner for Africa, and Vladimir Putin, Russia's president, made his first visit to South Africa last year. South Africa is building closer links with Brazil and India, and has defended Iran over its nuclear ambitions. It also wants the poor world to have a louder voice in the Security Council, the World Bank and the IMF.

This is quite a change from the Mandela presidency, when a freshly democratic South Africa, basking in its moral glory, promoted the upholding of human rights as its guiding foreign-policy principle. Now President Thabo Mbeki's priority is to put African interests and those of the poor world, as he sees them, first. South Africa has been preoccupied with building a stronger continent, including new structures such as the African Union (AU), in the hope of reducing Africa's reliance on Western help and its vulnerability—in Mr Mbeki's view—to Western meddling. South Africa has sent peacekeepers or mediators to trouble spots across Africa, from Sudan to Côte d'Ivoire, and may now send troops to Somalia. These efforts have produced patchy results, but South Africa, once an international pariah, has become a favourite mediator for addressing Africa's myriad conflicts.

But the Myanmar vote is an awkward way to advance such worthy aims. Mr Tutu argued that South Africa would not be the free country it is today if others had taken similar views at the UN in the apartheid years. Its moral reputation has already been tarnished by its failure to denounce Robert Mugabe's dreadful regime in neighbouring Zimbabwe. South Africa will have a chance next week to redeem itself, at least partly, when the AU decides whether to let Sudan, whose government has overseen mass-murder in the Darfur region, take the organisation's annual chair. South Africa is expected to oppose the move, as it did last year. But from being a rare African beacon for human rights, it has become more like most other countries around the world—putting their own interests before principle.

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Guinea

# Blood and diamonds

Jan 25th 2007 | ABIDJAN
From The Economist print edition

**One of Africa's worst-run countries faces violent change**

AFP

A GENERAL strike has kept banks, schools and markets shut for more than two weeks; tens of thousands of people have been on the streets to demand the ailing president's departure; and more than 40 of their number have been shot dead by the security forces. Guinea's president, Lansana Conté, who has survived assassination attempts and coup plots, has never been closer to losing power.

The strike, the third in the past year, has become overtly political in tone: the trade union leaders' main demand now is for Mr Conté to step down. It was started on January 10th to protest against the freeing of two of his friends, who had been accused of corruption; it is widely believed that the president went to the prison in person to get them freed. But the roots of the unrest lie in the country's dismal economic state, which the unions and protesters blame on the president.

For despite vast reserves of bauxite and diamonds, Guinea is in a terrible mess, and life for ordinary people continues to worsen. A recent UN report concluded that 11% of the population struggle to eat even a meal a day. Civil servants often earn just $30 a month, while the price of basic necessities such as rice keeps rising. A recent survey by Transparency International, a Berlin-based anti-corruption watchdog, suggested that Guinea was the most corrupt country in Africa, and many of the president's detractors believe that the problem starts at the top. Mr Conté, who took power in a coup in 1984, has been sick for several years. He is rarely seen in public, preferring the comfort of his farm in the countryside. His hold on power and influence on events in his country have regressed at the same pace as his health.

Emboldened by their initial success at bringing the country to a standstill, disrupting even the bauxite industry, union leaders then called for Mr Conté to resign, and organised a rally in the capital, Conakry, for January 22nd. Chanting protesters marched on the presidential palace. The security forces fired on the demonstrators, killing at least 30 and injuring more than a hundred. Since then, however, there have been talks between union leaders and the government.

Gilles Yabi of the International Crisis Group, a Brussels-based think-tank, suggests that Mr Conté should appoint a prime minister, with wide powers, to form a unity government. Other countries, he says, should help out but “must not encourage, in the name of artificial stability, a flimsy compromise that will only hold for a few months”. The Economic Community of West African States (ECOWAS), a regional group, wants the presidents of Nigeria and Senegal to mediate. As *The Economist* went to press, Mr Conté agreed to appoint a prime minister. But the strike was continuing.

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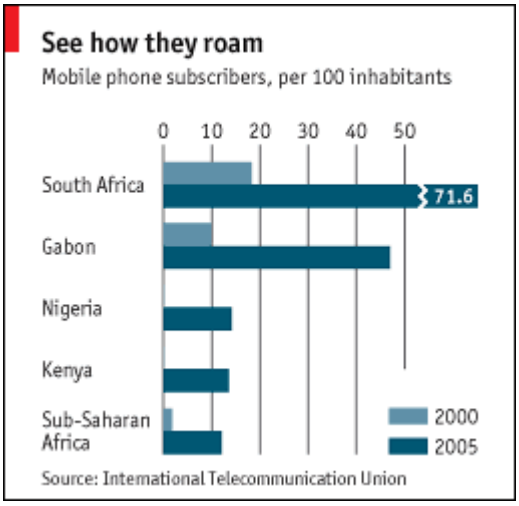
Mobile phones in Africa

# Buy, cell, hold

Jan 25th 2007
From The Economist print edition

**A plan is afoot to create a pan-African market based on mobile phones**

Get article background




THE technology revolution may be coming to poor countries via the mobile phone, not the personal computer, as it did in rich ones. And just as the internet encouraged an entrepreneurial ethos, and with it the creation of a few too many dotcom firms, Africa's surge in mobile-phone use may unleash the same sort of business energy, but tailored to local needs.

One such initiative is about to begin. TradeNet, a software company based in Accra, Ghana, will unveil a simple sort of eBay for agricultural products across a dozen countries in west Africa. It lets buyers and sellers indicate what they are after and their contact information, which is sent to all relevant subscribers as an SMS text message in one of four languages. Interested parties can then reach others directly to do a deal.

Listing offers is free, as is receiving the texts. TradeNet plans to earn revenue by putting advertisements in the messages, though it hopes the service will become so useful that recipients will eventually want to pay. For the moment, though, the company is busy signing up users and swallowing the cost of sending the messages.

Mobile-phone use in sub-Saharan Africa is soaring (see chart). Whereas only 10% of the population had network coverage in 1999, today more than 60% have it, a figure expected to exceed 85% in 2010, according to the GSM Association, an industry trade group. This provides the infrastructure for businesses like TradeNet to function.

TradeNet is the brainchild of Mark Davies, a British dotcom tycoon who gave up the rat race and went to Africa in 2000. In 2005, he started the prototype for TradeNet using around $600,000 of his own money and about $200,000 from aid agencies. An early set of trials last year generated a plethora of trades, such as a sale of organic fertiliser between a person in Yemen and another in Nigeria.

A number of other mobile-phone market-places taking shape also started as aid projects. For example, Trade at Hand, a project funded by the UN's International Trade Centre in Geneva, provides daily price information for fruit and vegetable exports in Burkina Faso and Mali, with plans to add more countries. And Manobi, a telecoms firmbased in Senegal, providing real-time agricultural and fish prices to fee-paying subscribers, is also backed by aid money. But TradeNet's approach is unique so far because it collects valuable economic data—names, locations, business interests and telephone numbers—and then sells them to advertisers. The price of economic development may be junk mail by mobile phone.

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Serbia's election

# Radical in name only

Jan 25th 2007 | BELGRADE AND PRISTINA
From The Economist print edition

AFP

**The Serbs vote for Europe, but not yet for Kosovo**

Get article background

AN EXAGGERATED pride in ethnic and religious identity is a familiar curse in the Balkans, and at first glance the Serbian elections that took place on January 21st confirm that the curse continues: the greatest share of the vote was won by the ultra-nationalist Serbian Radical Party, whose leader, Vojislav Seselj, is on trial before the United Nations war crimes tribunal in The Hague. A second glance is more reassuring: the real message of the election is that a majority of Serbs, including many who voted for the Radicals, favour moving the country forward on the path of European integration.

The question is how. All of Serbia's main parties were disappointed by the results, gaining less than they had hoped in competition with smaller parties. The conservative and nationalist Democratic Party of Serbia, led by the outgoing prime minister, Vojislav Kostunica, took 16% of the vote; the more liberal, more pro-western Democratic Party of President Boris Tadic 23%; and the Radicals 28.5%.

But should the Radicals' relative success be interpreted as support for its traditional goal of a “Greater Serbia”, which would take in a large part of Bosnia, Croatia and, of course, the Serb province of Kosovo? Certainly that dream remains, at least on paper. But even if the Radicals were to control the government, which is unlikely, Serbia has no means to realise it. Indeed, quite a few of its voters were committed pro-Europeans who chose the Radicals as a protest against the other parties; others were the losers from years of war and economic turmoil. As one local analyst points out, the day of bellicose nationalism is over: the Radicals did better than Mr Tadic's party in traditionally liberal Belgrade because many voters believe that there is corruption in high places—and not because they want to go to war again.

The problem, which will doubtless take weeks to solve, is to how to form a coalition government reflecting this overall pro-Europe trend. “All bets are on,” says Ivan Vejvoda, who heads the Balkan Trust for Democracy. Yet the Radicals are very unlikely to be part of this process, unless asked to support a minority government, and, odd as it may seem for the biggest party (which they already were), they have no interest in being in government.

The reason is simple: they do not want to be remotely near to power if and when Serbia's southern province of Kosovo is lost to independence. Meanwhile, Mr Kostunica wants to remain prime minister and Mr Tadic would like someone from his party to be prime minister. Since there are some valuable privatisations coming up, and being in power means being able to put your party faithful in lucrative positions, there will be hard bargaining for ministerial posts. One possibility, with presidential elections due later this year, is that Mr Kostunica will retain his job in exchange for supporting another presidential term for Mr Tadic.

But even before the parties strike a deal, Serbia faces a major challenge. On January 26th Martti Ahtisaari, the former Finnish president charged by the UN with finding a solution for the problem of Kosovo, was to present his proposals to officials of the main countries concerned with the region. They include America, Britain, Russia and

France. On February 2nd he will present them to the Serbs and Kosovars.

It will be a tricky task. Since 1999, Kosovo has been under UN jurisdiction, after Security Council Resolution 1244 ended the Kosovo war. Of Kosovo's 2m people, some 90% are ethnic Albanians bent on independence. Mr Ahtisaari's report is expected, without actually using the word “independence”, to support that goal. Serbia rejects this and publicly Russia, its fellow-Slav ally, does too.

In private, though, Russian diplomats are saying that “all options” are on the table. In other words, independence is indeed one of them. However, nerves are fraying. If Russia's president, Vladimir Putin, decides to veto any new UN resolution on Kosovo, then its Albanian-dominated parliament could declare independence anyway, just as Croatia and Slovenia did in 1991, and hope that other states will recognise them.

For the diplomats this is the nightmare scenario. Unlike in Croatia and Slovenia, legal authority in Kosovo lies with the UN and its administration there. Kosovo is expecting a large EU-led mission to replace this and guide it on its Ahtisaari-defined path—but how could this happen if Russia vetoes a resolution to end the existing UN mission? “There is no plan B,” says one diplomat.

In the meantime, Fatmir Sejdiu, Kosovo's president, says that delay will only create “tensions” and “challenges”. He means violence. If that happens, the 17,000-strong NATO-led peacekeeping force might come under attack and the UN would almost certainly be ejected from the Serbian-dominated north. Once the Ahtisaari plan is revealed, the Balkans could be in for a long, hot time.

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**Bosnia**

# On the boil

Jan 25th 2007 | SARAJEVO
From The Economist print edition

**The politics get messy, even for an old hand**

BALKAN folk dances are intricate, lively affairs where a misstep may have dire results. According to the original script written by the region's outside choreographers, the office of the “High Representative” (in effect, the international pro-consul in Bosnia) was to be abolished on June 30th. Its powers of legal intervention would be replaced by those of persuasion, exercised by the parallel post of European Union (EU) representative. Both are held by Christian Schwarz-Schilling, a retired German politician and old Bosnia hand.

Now that plan is in chaos. Milorad Dodik, the premier of the Republika Srpska, the Serb part of Bosnia, wants the same right to self-determination as that exercised by Montenegro last year, and possibly by Kosovo soon. The latter analogy is a powerful one. If a province of Serbia can decide its own future, he argues, why not his fief? Mr Dodik has a lot of clout: since October, his party has been dominant in the Bosnian parliament, giving him the right to nominate the country's next prime minister.

It is hardly surprising that Mr Schwarz-Schilling has shed his fervent belief that it is time for Bosnians to run their own country. He has recently been urging his bosses to extend his mandate. They are likely to do so, albeit with reduced powers—and minus him.

Whoever becomes the next office-holder will not only have Mr Dodik to deal with, but will also have fewer troops to keep the peace. From 5,769 soldiers now, the EU force in Bosnia should shrink to 2,500 by the year's end. Its commander, Rear Admiral Hans-Jochen Witthauer, says that's fine: “whatever happens in the country or outside it”, he cannot foresee a return to war.

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The Czechs' new government

# Someone in charge, at last

Jan 25th 2007 | PRAGUE
From The Economist print edition

**A seven-month political stalemate produces a fragile agreement**

MOST of eastern Europe worries about its bad government. The Czech Republic's worry since the summer has been rather different: no functioning government at all. A general election in June produced a tied result, with a putative conservative-green coalition having exactly 100 MPs, and Social Democrat and Communist deputies the same number.

Last week, Mirek Topolanek, the leader of the main conservative party, the Civic Democrats (known by its Czech initials, ODS), squeaked through a confidence vote thanks to the absence of two renegade Social Democrat deputies. What inducements, personal or political, they may have received for this, is a subject of great speculation in the taverns of Prague.

So will Mr Topolanek's government be any good? And will it last? Its members are mostly a dispiritingly grey bunch, with a whiff of sleaze (like most previous Czech governments). But it boasts some stars, such as the foreign minister, Karel Schwarzenberg, a colourful and savvy Hapsburg aristocrat. It mixes those from the “truth and love” camp of the former president and dissident leader, Vaclav Havel, with the more hard-headed followers of his successor, Vaclav Klaus. Though divided on issues such as nuclear power and rights for Roma (gypsies), it seems clear on foreign policy. One early decision was to announce its willingness to provide a base for an American anti-missile radar (though the accompanying missiles will be based elsewhere, probably in Poland). In return, Czechs expect visa-free travel to America.

The pressing question is soggy public finances. Though GDP growth was around 6% last year, a government deficit of 3.7% of GDP in 2006 is likely to rise to 4.1% in 2007, taking the country way beyond the target needed to adopt the euro. Drastic reform of state administration and public services is needed, as well as of the pension system.

The government promises a flat tax, health-care charges and other liberalising moves. But other plans are sketchy, and in any case nothing will happen soon (drafting the laws will take six months). Worse, getting anything radical through parliament will be hard. Milos Melcak and Michal Pohanka, the two Social Democrat deserters, have not promised to back the coalition in future.

So why not call early elections? The ODS and its allies are ahead in the polls. But Mr Topolanek's own position in the party is shaky. An election could give his powerful rivals (who are backed by the abrasive Mr Klaus) a chance to strike.

Another possibility would be cross-party co-operation with the Social Democrats. Lubomir Zaoralek, one of their leading figures and a deputy speaker, says his party is always willing to compromise, but that the ODS is not: “If they behave arrogantly, it won't lead anywhere.”

The Czechs may have ended their humiliating political paralysis. But much deeper reform is needed than this fragile government seems likely to provide.

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Germany's press

# Checkpoint Rudi

Jan 25th 2007 | BERLIN
From The Economist print edition

**Not just which side of the street, but what name for the street**

CHECKPOINT CHARLIE is one of those must-see tourist attractions that are best avoided. This crossing-point between the old East and West Berlin features hordes of teenagers and street vendors selling communist paraphernalia. But a detour to nearby Kochstrasse is worthwhile, for it forms a checkpoint of its own—the front line in a culture war featuring two big newspaper names: *Bild Zeitung*, Germany's leading tabloid, owned by Axel Springer, and the left-wing *Tageszeitung* (TAZ). On January 21st the district's residents joined the battle by voting to rename part of the street Rudi Dutschke Strasse, after the 1968 student leader shot by a *Bild*-reader.

Although the two arch-enemies have lived within a stone's throw of each other for a decade, relations have been mostly peaceful. Even many on the left have now made their peace with *Bild*, which with a circulation of 3.5m is Germany's biggest daily paper. Journalists read the paper to keep in touch with ordinary folk. Politicians use it to get their message across. More recently, the Springer group's chief executive, Mathias Döpfner, agreed to a joint interview in *Der Spiegel*, a weekly, with Günter Grass, a writer who was a hero of the 1968 generation.

The TAZ, for its part, has gained some respect on the right. After years of internal chaos and catering to leftist groups, it entered the mainstream in the early 1990s. As its clientele grew richer, the newspaper even made its unusual business model work: a relative lack of capital (the TAZ is a co-operative with more than 7,000 members) and low advertising revenues are compensated for by a loyal 50,000-strong subscriber base and low pay (though employees no longer all take the same salary).

As if to mark their peaceful coexistence, the TAZ even let Kai Diekmann, *Bild*'s editor, be its boss for a 25th anniversary issue in 2003. The TAZ now greets readers with *Bild*-like big letters and a large picture (a photo of Angela Merkel as a toddler with the headline “It's a girl” was the choice when she became Germany's chancellor).

Yet relations have deteriorated again, perhaps because both publications are past their prime. Despite its jazzing-up, the TAZ has never moved beyond its traditional (now ageing) readership. Critics argue that the newspaper's campaign for Rudi Dutschke Strasse was largely a nostalgic public-relations ploy when there are few events still mobilising the left. It is certainly fun to force the Springer lot to reside on a street named for an arch-enemy.

Predictably, old reflexes have kicked in at Springer headquarters too. Springer and other businesses have gone to court, claiming that the renaming will be too costly (so delaying the erection of any new street signs). Nor did it help relations when the TAZ published a satirical story claiming that Mr Diekmann had undergone a penis enlargement in Florida. He sued, claiming that his personal rights had been violated, only to be told by a judge that, as editor of a newspaper that is in the “business of violating personal rights”, he must put up with such insults.

*Bild*'s own target group, blue-collar workers, is a shrinking audience too. Since the late 1990s, circulation has dropped by 1m, although the tabloid apparently still reaches 12m Germans, or a fifth of the adult population, every day with its strident populism and attacks on politicians such as Günter Verheugen, vice-president of the European Commission and recently ridiculed for his allegedly intimate relationship with his female chief of staff.

But this approach has triggered a new anti-*Bild* movement. By pointing out the newspaper's factual errors, BildBlog has become one of Germany's most popular blogs, chipping away at the widely held belief that *Bild* is at least put together by professionals, and giving ammunition for yet more ironic pieces in the TAZ whenever its neighbour gets into more trouble. Not that the TAZ should get cocky: it has yet to find a potion for second youth, even if its street address has become 23 Rudi Dutschke Strasse.

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Turkey's poorest corner

# The plight of the Kurds

Jan 25th 2007 | HAKKARI
From The Economist print edition

**Too many promises have been broken by the politicians**

ON AN icy road snaking through the mountains that separate Turkey from Iran and Iraq, a military convoy rumbles along. Ragged children stand barefoot in the snow, waving at the conscripts as they peer through misted windows. They are headed towards Hakkari, the poorest corner of Turkey's predominantly Kurdish south-east and a launching pad for military operations against separatist PKK rebels in Kurdish-controlled northern Iraq. Decades of neglect and brutal repression have made the province synonymous with all that ails Turkey's 14m Kurds.

Four years ago, when he chose Hakkari to launch the election campaign that swept his AK party to power, Turkey's mildly-Islamist prime minister, Recep Tayyip Erdogan, joined a train of politicians pledging change for Hakkari.

“Not a thing has changed,” however, according to Metin Tekce, the youthful mayor of the province's eponymous capital. Jobless youths fill coffee-houses. The stench of uncollected rubbish wafts through the air. Barely a fifth of homes have running water. Tens of thousands of refugees, expelled from surrounding villages by the security forces at the peak of the PKK insurgency in the 1990s, are surviving thanks to Hakkari's deeply rooted tribal culture—but their presence is straining the town's flimsy infrastructure to the point of collapse.

Mr Tekce says he might have had a shot at fixing things. But the mayor's debt-laden budget is eaten up by his bloated workforce and his time is spent running from one court hearing to the other. Mr Tekce has been slapped with at least 20 cases since being elected in 2004 on the ticket of Turkey's largest pro-Kurdish party, the DTP. Charges against him range from “membership of a terrorist organization” for saying “the PKK are not terrorists”, to violating constitutional laws decreeing that “everyone who lives in Turkey is a Turk.” Mr Tekce said he was a Kurd.

Fourteen months ago, Mr Erdogan returned to Hakkari with fresh promises. It was after the bombing of a bookshop frequented by pro-PKK activists in the township of Semdinli. Two intelligence officers and a PKK informant who planted the bomb were caught as they fled the scene. Speaking in Semdinli, Mr Erdogan vowed to get to the bottom of the affair “no matter how high the trail leads.”

Emboldened by such words, in his indictment of the Semdinli bombers the chief prosecutor of nearby Van also implicated Turkey's hawkish chief of general staff, Yasar Buyukanit, who had called one of the bombers “a fine chap”. An unscheduled “working visit” to the prime minister from the general prompted Mr Erdogan to back down; the prosecutor was sacked and the bookshop owner jailed. “The biggest chance to solve the Kurdish problem was squandered,” says one prominent human-rights lawyer.

Adnan Demirkan, a local AK party official, disagrees. The government is expanding roads and has built 700 units of low-income housing. It has also launched a scheme throughout the south-east which gives poor families 30 lira ($21) a month for each child to help with their education. The money is deposited in the mother's account to ensure it is

properly spent.

In the nearby town of Yuksekova, Necip Capraz, who runs an online news service that broke the Semdinli scandal, has a different worry. He detects a link between the steady stream of anonymous threats that he has been receiving and the deteriorating relationship between Turkey and the EU. “The EU talks were our only shield,” Mr Capraz commented.

Meanwhile, the climate of repression is pushing a growing number of Kurds to cross into northern Iraq in search of jobs and freedom—or, worse still, to join the PKK. Should Mr Erdogan keep breaking his promises for Hakkari, many more are poised to follow.

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France and wealth

# A taboo about money

Jan 25th 2007 | PARIS
From The Economist print edition

**Being rich is nothing to boast about**

AT FIRST glance, the death this week of Abbé Pierre, a French Catholic priest and former resistance fighter who spent half a century combating poverty, and an ongoing political spat over taxing the rich, have little in common. The first prompted the celebration of a big life; the second is a predictable election-campaign squabble. Yet both expose the complicated relationship between the French and money—already a dominant theme of the campaign for this year's presidential election.

The French reaction to Abbé Pierre's death has been overwhelming. *Le Parisien*, a newspaper, devoted 18 pages to the one-time parliamentary deputy who set up self-supporting communities for the homeless. Even the centre-right *Le Figaro* called him “the hero of the French”. President Jacques Chirac described himself as “shattered” by the priest's death, announced a funeral in Notre Dame cathedral and said that France had lost “an immense figure, a conscience, an incarnation of goodness”. Until he asked to be removed from the list in 2003, ceding his place to football's Zinedine Zidane, Abbé Pierre had been voted the most popular living Frenchman for seven of the previous ten years.

As the French looked back on a life spent pricking the conscience of a nation about poverty on its own doorstep, they were also digesting a political row about earthly goods at the other end of the scale. The Socialist Party presidential candidate, Ségolène Royal, brushed up her image as a champion of ordinary folk this week by declaring that it was “scandalous” to reduce taxes on the rich, as her centre-right rival, Nicolas Sarkozy, has pledged to do. Yet last week it emerged that Ms Royal and François Hollande, her partner and the party's boss, themselves both pay the country's wealth tax, symbol of the super-rich. Ms Royal part-owns three properties, including a holiday home in the south of France.

Given France's public discomfort about wealth, this was a scandal. Mr Hollande had once declared on television: “I don't like the rich.” Ms Royal retorted that she was “well-off” rather than rich, though according to French law the tax applies to those in possession of a “fortune”. Could all this harm Ms Royal's political prospects? French ambivalence about money, after all, is deep—steeped in the egalitarian revolutionary creed, say some, or even in Catholic culture, claim others.

But is it? For sure, the French still like the symbolism of the wealth tax: three-quarters of them tell pollsters they do not want it abolished. And they have a deep admiration for the personal asceticism embodied by Abbé Pierre. But do they really these days expect their politicians to live that way too? The real trouble with the wealth tax, which kicks in on assets worth over €750,000 ($974,000), is that—thanks to the property boom—it now traps 400,000 households, not all of them rich. The French seem to understand this absurdity. Asked in a poll whether the revelation that both Ms Royal and Mr Sarkozy pay the wealth tax would affect the way they will vote, fully 85% said it would make no difference at all.

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**Charlemagne**

# Slippery slope

Jan 25th 2007
From The Economist print edition

Peter Schrank

**Holocaust denial is profoundly wrong. But should it be illegal?**

GOOD intentions are rarely enough. There is no doubt that in proposing to make Holocaust denial a crime throughout the European Union and to ban the display of the swastika (to some a 5,000-year-old symbol of peace), the German government is activated by the best of intentions. But caution applies even in this matter. One of the most moving books about the Holocaust, one describing the moral compromises forced upon leaders of the *Judenräte*, Jewish councils appointed by Nazis in the ghettos of Warsaw, Vilnius and Lodz, takes for its title the common adage about good intentions: “The Pavement of Hell”. As Jacques Chirac says, Holocaust denial is a perversion of the soul and a crime against truth. But that does not mean it should be a crime in law.

Criminalising it would obviously limit freedom of speech, one of the basic freedoms on which other liberties depend. But that alone is not a proper objection. Brigitte Zypries, the German justice minister, is surely justified when she says, “We believe there are limits to freedom of expression.” The question is where you draw those limits. In the liberal tradition, they have been put at the point where speech becomes a threat to others (hence child pornography is rightly banned; so is the proverbial shouting of “Fire” in a crowded theatre—at least if it is false).

But Ms Zypries goes further. History, she argues, puts Germany under a special obligation to combat racism, anti-Semitism and xenophobia. “We should not wait until it comes to deeds. We must act against the intellectual pathbreakers of the crime.” This is a much more controversial claim.

In its favour, one might cite the Holocaust itself. In describing Hitler's personal responsibility for “the final solution to the Jewish problem”, historians have mostly stressed its indirect character. He got his way not through written orders but through his minions' understanding of his hunger for extermination, expressed in “Mein Kampf”. So imagine if the book had been banned: might that have struck at the “intellectual pathbreaker” of the greatest of crimes? At a time when Iranians have elected a Holocaust denier as president and when the leader of a new far-right group in the European Parliament is facing charges of Holocaust denial in France, it cannot be said that there are no politically influential Holocaust deniers around.

But one is still entitled to ask whether the proposed remedies would actually work. Eleven European countries already have national laws against Holocaust denial—Austria, Belgium, the Czech Republic, France, Germany, the Netherlands, Lithuania, Poland, Romania, Slovakia and Spain. These countries contain most of Europe's largest racist and xenophobic parties. Perhaps one might turn the argument around and say that Nazism is such a threat in those countries that anti-Nazi laws are justified. But even if that were true—and the claim is surely an exaggeration—it would only justify having laws there, not throughout the EU. Anyway, the German government's argument is different. It says laws against Holocaust denial can help stop anti-Semitism before it really starts—which seems highly doubtful.

Laws against Holocaust denial also come up against the rule of unintended consequences. In theory, outlawing Holocaust denial would put an end to the belief, except for a few misguided hold-outs who would be dealt with by the impartial majesty of the law. In practice, the courts would be just as likely to end up giving publicity to the hateful views of people like David Irving, a British “historian” who was sentenced to prison amid fanfare in Austria. Or they could become circuses for cases like that of Britain's Prince Harry, who wore a swastika-emblazoned uniform to a fancy dress party but was merely pilloried for it in the press since Britain does not ban Nazi regalia. Or the courts would make idiots of themselves, as happened in the case of a Stuttgart clothing company which sold T-shirts with swastikas crossed out to show opposition to fascism: the manager was prosecuted.

## Where might it end?

Holocaust-denial laws, then, may not be the best way of dealing with the problem of Holocaust denial. In addition, they impose their own, often hidden, costs. Such laws can take you down a slippery slope. One may think the Holocaust was a uniquely dreadful event. Even so, it is hard, once you have passed a Holocaust-denial law, not to extend it. Asked why the EU proposed to pass a law about the genocide victims of one of 20th-century Europe's totalitarian ideologies (fascism) but not the other (communism), Ms Zypries replied it was just a matter of timing. By implication, the EU will one day propose banning *gulag*-denial too. This may seem fine, but sooner or later genocide-denial laws end up restricting expressions that might cause ethnic or religious offence. They can quickly result in a lot of speech-restricting laws.

All this may seem an exaggeration, but remember that many European countries do have anti-incitement rules already. French law, for example, imposes sanctions on those who deny crimes against humanity or who express racist points of view. When Ms Zypries defended restricting free speech, she went on to say that “the limits are there when it is offensive to other religious and ethnic groups.” This is close to saying something is a crime if the victim says so—an unhappy legal principle, and an encouragement for people to take offence at every opportunity.

Holocaust denial laws are wrong whoever imposes them. But they are at least understandable in countries where Nazism had indigenous roots. No such excuse can be made for the European Union as a whole. In addition to all the other problems, an EU-wide Holocaust law offends against the principle that laws should be enacted at the lowest possible level of government, not the highest. If European politicians want to do something about Holocaust denial, perhaps they should worry more about the government of Iran, which contains a Holocaust-denier one really needs to worry about.

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Politics

# Trust the locals

Jan 25th 2007
From The Economist print edition

**Reasons to be hopeful that Britain will become less centralised**

Alamy

WHENEVER Britain is diagnosed as ill-governed the same remedy is proposed: split up the mammoth bureaucracies in Whitehall, the wide street that runs from Parliament to Trafalgar Square and is still haunted by the ghosts of the men in bowler hats who built the welfare state from their offices there. Functions move from one department to another, in the hope of conjuring up better co-ordination across government. Then something new goes wrong, and the process starts again. John Reid, the home secretary, has been at this recently, arguing that his clumsy department would make a better job of keeping track of the miscreants who keep escaping from its databases and on to the front pages of newspapers if it were split into two.

Mr Reid's proposal looks unlikely to go far at present. But there is an alternative to this endless cycle of restructuring followed by disappointment followed by more restructuring. The centre could be forced to do less and local government trusted a little more. Those who think this is a good idea dream of renewing the kind of government that flourished in Victorian Britain, when councils housed in magnificent town halls decided for themselves what they would spend money on and how they would raise it. Happily, a consensus is gradually forming around this idea. It might even happen.

Take the sustainable-communities bill, passed by Parliament at its second reading on January 19th. If it becomes law in its current form (and it has support from the opposition and about half of the parliamentary Labour Party), it would give councils and local authorities far greater discretion over spending. They would be given power to request information on how much Whitehall departments were planning to spend in the local area through various agencies and quangos and, working within that budget, draw up alternative spending plans. The government could then amend these, but would have to explain to Parliament why it had done so. Nick Hurd, the Conservative MP who proposed the bill, reckons the amount of extra money this would bring within council control would be roughly equivalent to the entire grant that councils currently get from central government.

Meanwhile a separate proposal, this time from the government, to give greater local control over health care, was debated in the House of Commons this week. The department for communities (previously known as the Office of the Deputy Prime Minister), which put it forward, now talks about “a radical cut in red tape and targets” for local government. The sniggers this invites are justified. Radical measures often turn out to mean tinkering with the current arrangements, and the government is responsible for plenty of the red tape and the targets it now wants to banish. Yet the proposal points to a growing recognition that power has become too centralised.

Relations between the centre and everywhere else are out of whack. Local government accounts for a quarter of total government spending but the great bulk of this is handed out by central government rather than raised locally; and it has little discretion over how it spends the money. Rather than letting voters decide how their councils are doing, Whitehall monitors them through inspections and makes them report progress on over 1,000 performance indicators.

The inspections alone cost £2.5 billion ($4.9 billion) a year, according to the Local Government Association, a lobby group. And the targets set in Whitehall reflect an attempt to micro-manage from the centre that can seem absurd. Councils must provide figures, for example, on how many mothers are breastfeeding after 17 weeks and the total length of footpaths deemed easy to use.

All this has a number of political costs. The first is that Tony Blair is held personally responsible for every sprained ankle in the land. “The reason that British prime ministers look so exhausted when they leave office,” says Tony Travers of the London School of Economics, “is that they not only do the job that George Bush or Angela Merkel is doing; they also do most of what the states or the *Länder* do too.” Second, when the government is searching for new ideas it always has to look abroad (usually to less centralised places such as America), since councils in Britain have little freedom to experiment with new ways of doing things. A third cost is that turnouts at local elections are low. When councils have so little discretion over tax and spending, they hardly seem worth voting for.

For opposition parties observing the mess, decentralisation is an appealing (if hardly catchy) solution. The problem is that when new governments get their hands on power at Westminster, they tend to find it hard to let go voluntarily. Labour's 1997 manifesto promised to decentralise power and make local government more independent; the Conservatives say they would do the same. As the Tories are the largest party in local government at present, this is an easier step for them than it might be for Labour. They are also being pushed in this direction by Direct Democracy, a group of young MPs and candidates who have read their Burke and are eager to hand power to the little platoons.

Yet even the most enthusiastic Tories refrain from calling for more tax-raising powers for councils. Council tax, which raises a quarter of local-government revenues, is unpopular, and businessmen fear that if councils could set business taxes they would head in only one direction. Ministers are also under constant pressure to deliver public services that are the same everywhere, even if this means levelling down. Until that changes there will be no return to the glories of the neo-gothic town halls. Even so, giving councils more power is worth a try. They are unlikely to do worse than those giant departments.

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Northern Ireland

# Inside job

Jan 25th 2007 | BELFAST
From The Economist print edition

**Evidence of past collusion is unlikely to undermine the new police force**

THE publication on January 22nd of a report detailing how some in the old Royal Ulster Constabulary (RUC) protected a band of loyalist paramilitary killers could hardly have come at a more sensitive moment. Republicanism's own paramilitaries-turned-politicians are preparing to commit themselves at an *ardfheis* (special conference) on January 28th to supporting law and order in the province, thus paving the way for devolved administration to be restored to Belfast.

Gerry Adams, Sinn Fein's president, is expected to propose that, if it is, the party should be represented on the supervisory Policing Board and the IRA's former leader, Martin McGuinness, should swear as deputy first minister to uphold the rule of law. Instead of using the revelations of Nuala O'Loan, the police ombudsman, about the RUC as an excuse to procrastinate, Sinn Fein's leaders said they showed that collusion would stop only if republicans were brought inside the reformed Police Service of Northern Ireland (PSNI).

The ombudsman's investigation, begun in 2002, showed that for more than ten years officers of the RUC's Special Branch had misled other detectives, prevented searches and falsified interrogations, largely to shield a paid informant involved in murder, drug-dealing and other serious crimes. The officers boosted the Ulster Volunteer Force in bitterly-divided north Belfast and prevented the prosecution for murder of an informant, Mark Haddock, who was finally jailed last year.

More than 100 serving and retired officers were questioned, but Special Branch commanders refused to speak to the ombudsman's team. As when previous investigations suggested collusion, unionist politicians and some retired police accused her of being biased against the security forces.

The report focuses on the murder of six Catholics and four Protestants. It says that Mr Haddock's handlers “baby-sat” him through “sham” interviews. He was allowed to shave off his beard while in custody, after a witness to a murder described the killer as bearded. And he was given a pay rise after admitting to killing a Catholic woman taxi-driver.

Mrs O'Loan said that she believed a proper system of handling informants was now in place and praised the co-operation of Sir Hugh Orde, the chief constable of the PSNI, and many other officers. (Mr Haddock was paid off in 2003, a year after Sir Hugh was appointed.) The officers involved, mainly junior, could not have carried on for so long without “knowledge and support at the highest level of the RUC and the PSNI”, Mrs O'Loan said. But most senior officers had refused to co-operate and records had been falsified or destroyed to prevent prosecutions.

The spotlight has initially fallen on Sir Ronnie Flanagan, the last chief constable of the RUC, first head of the PSNI and now head of the Inspectorate of Constabulary, which is responsible for policing standards in England, Wales and Northern Ireland. He has angrily denied knowledge of any wrongdoing and the Home Office in Westminster has rejected nationalist calls for him to be sacked.

Many Catholics have long believed that the mainly Protestant RUC conspired with loyalists, and the IRA often used allegations of RUC collusion to justify their own murders. The ombudsman's report said it was “highly likely” that police failings in north Belfast had been replicated elsewhere. That is confirmation enough for those predisposed to see the covert hand of the police in many of the 1,000 murders —30% of the total death-toll—committed by loyalists during the Troubles.

In the border town of Newry, an elderly farmer, respected in large part because one son was shot dead by soldiers and another was a famed IRA sniper, took the microphone at a meeting of republicans on January 22nd. “I hate the police,” said Peter John Caraher, “but I think this is our chance to go forward.” If republicans joined the PSNI, he said, they would make a “different police force we can all be proud of”. The novel idea drew semi-shocked laughter, then applause.

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British identity

# Waning

Jan 25th 2007
From The Economist print edition

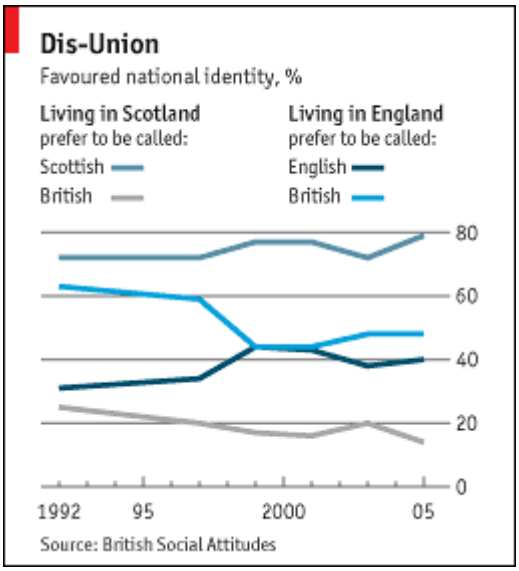
**How an island nation sees itself**

FOR Gordon Brown, the chancellor of the exchequer, Britishness encapsulates such laudable values as fair play and an “unshakeable British commitment to liberty”. Mr Brown has been calling for a national debate on what the Union Flag represents for several years, and often seems to be doing most of the debating himself. His most recent contribution was to describe a campaign for English votes on English laws, which would also disenfranchise the MP for Kirkcaldy & Cowdenbeath and prime-minister-in-waiting himself, as “a Trojan horse” for the separation of Scotland from England, leading to the break-up of Britain.

Unfortunately for Mr Brown, his timing looks poor. A string of recent polls has shown increased support among English people for separation from their northerly neighbours. And the most recent edition of the annual British Social Attitudes Survey, published on January 24th, provides further evidence that a more general sea-change may be taking place.

For one thing, the commitment to those very British civil liberties seems to be declining fast. In 15 years there has been a large fall in the number of people who think it is worse to convict an innocent person than to let off a guilty one: from 62% in 1990 to 52% in 2005. The number who think the police should be able to question suspects for up to a week without giving them access to a solicitor has risen from 9% to 25% over the same period, and support for compulsory ID cards from 37% to 54%.

The notion of Britishness itself is losing favour. Decreasing numbers of the residents of the island of Great Britain now regard “British” as their primary national identity. Part of the reason is that since devolution in 1998 the Scots and, to a lesser extent, the Welsh are keen on expressing their new political independence. But not all of it. Those living in England also see themselves differently. There has been an increase in the number opting for the label “English” as the one that best describes their nationality (see chart).




Respondents not only embrace a British identity less readily than they did but also have trouble ascribing a distinctive meaning to it. When asked what it meant by pollsters, most struggled, then fell back on such banalities as “the stiff upper lip” and “drinking tea”. Those who described themselves as British were no more likely than others to express an attachment to such British institutions as the monarchy or the system of government. This week Alan Johnson, the education secretary, proposed teaching Britishness in schools.

For some groups, Britishness has a particular importance. “English” seems to convey an ethnic, rather than a civic, identity. One of the useful attributes of the British label is that minorities often prefer it. In 2002 pollsters at MORI found that only 9% of ethnic minorities strongly identified with England, Scotland or Wales, compared with 39% of the general public.

Other sorts of social identities too are in flux, including class, political affiliation and religion. All are declining. Although as many people as ever think of themselves as belonging to a social class, this is no longer correlated with a set of beliefs about such things as the merits of income redistribution. Class warfare is out of fashion, the ideological line between Britain's two main parties has blurred and voter turnout, at 61% in the 2005 general election, is near a post-war low. Even those who identify with a particular party do so less strongly than they used to.

The most marked change is in the number of people who say they are religious. In 1964 nearly three-quarters of Britons not only belonged to a religion but attended services; by 2005 only three in ten did.

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Reality television and racism

# Jaded

Jan 25th 2007
From The Economist print edition

**Big Brother is being watched**

Reuters

**Gone but not forgotten**

IT TURNS out that the audience really is always right. On Friday January 19th Jade Goody, a 25-year-old veteran of reality television who had built a successful career on a tendency to say whatever came into her head, was voted off “Celebrity Big Brother”, a reality show, by a massive 82% of the vote. She was up for eviction against Shilpa Shetty, a Bollywood actress and the butt of what Miss Goody now acknowledges was racist bullying by her.

There was rejoicing that the people of Britain had shown their decency by voting Miss Goody off the show. London's mayor, Ken Livingstone, declared himself “delighted”. Miss Shetty's family said the vote showed that “goodness always prevails, like in Bollywood films.”

The great British public were turning against a monster they had themselves created. Miss Goody first came to attention in 2002, in the second series of “Big Brother”, when she captured the public imagination with an unselfconscious and comprehensive display of ignorance of geography and much else.

The timing of the row is poor for the show's broadcaster, Channel 4, which is trying to persuade the government to increase its subsidy. Ofcom, the media regulator, is reviewing the channel's finances—as well as investigating a record 45,000 complaints from viewers.

At first, charmed by soaring ratings, the channel did not take the row seriously. Its chief executive, Andy Duncan, urged viewers to express their distaste for obnoxious contestants by voting to evict them—that is, by making a premium-rate phone call. Only belatedly did it offer to donate the proceeds to charity and announce an independent review of the show. It needs to move nimbly; on January 21st one of the contestants on “Shipwrecked”, another of its reality programmes, proposed a return to the British empire and slavery.

Miss Goody's remarks (such as referring to Miss Shetty as “Shilpa Poppadom”) are said to be indicative of an unthinking racism—what the Archbishop of York, John Sentamu, described as an “ugly underbelly in society only too ready to point the finger at the foreigner”. Just as striking, though, are the personal attacks that Miss Goody herself has faced ever since her first sojourn in the Big Brother house in 2002. Then the *Sun*, a tabloid newspaper, ran a campaign to “Vote out the pig” (she supposedly has a physical resemblance to the creatures). The *Daily Mirror*, another tabloid, called her a “vile fishwife”; the *Daily Mail*, a third, went for “foulmouthed ex-shoplifter”.

Miss Goody can perhaps console herself by contemplating a personal fortune, estimated at £8m ($15.7m), earned from television appearances, tabloid interviews, an autobiography, fitness DVDs and a perfume. She is now said to be planning a penitential trip to India, filmed by Channel 4, in an attempt to rescue her career. If this is the end of her time in the limelight, though, she should not be difficult to replace. According to the Learning and Skills Council, one teenager in seven hopes to become famous by appearing on reality television.

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Casinos

# Gambling for the masses

Jan 25th 2007
From The Economist print edition

**British cities punt to build the country's largest casino**

VISITORS to London's Globe Theatre can be forgiven for thinking they are celebrating all that was great in Elizabethan England. But while Shakespeare's orations and drama may have graced the theatre, it was also used as a bear pit, brothel and gambling house.

London's response was to blame theatres for society's debaucheries and in 1596 the city banned the public performance of plays. Four centuries later the circle has turned and the government now sees gambling as a business to be encouraged. Seven British cities are furiously bidding against one another for the privilege of being allowed to license the country's first super-casino, each one trying to argue that it is more socially deprived than the rest and that it has a worthier plan to use gambling as a catalyst for regeneration.

On January 30th the government-appointed Casino Advisory Panel will recommend which cities should have the right to build 16 medium and large casinos and one super-casino. Many expect the new super-casino to go either to Blackpool (the clear favourite of punters on Betfair, a betting exchange) or to Greenwich, a London borough which has a tenuous claim to being especially needy but is home to the embarrassingly underemployed Millennium Dome (now known as the $O_2$).

Blackpool argued in its bid that a casino would create up to 3,400 jobs, stimulate as much as £450m in investment and attract more than 5m visitors a year to the crumbling Victorian town, which has struggled to stem a decline in tourist numbers over the past two decades. Many reckon that it has the stronger bid because without some such development Blackpool seems destined for increasingly dingy decay. If selected, the town has promised to create a conference centre and rebuild a third of its run-down city centre.

Greenwich, for its part, reckons a casino at the $O_2$ dome will be the linchpin for a £600m investment in shops, hotels and gambling facilities and create as many as 5,000 jobs. But many suspect that Greenwich's real appeal is that it will save the government the bother and expense of sprucing up the neighbourhood for the 2012 Olympic games. Its bid has also been mired in political controversy since it emerged that John Prescott, the deputy prime minister, had been entertained at the ranch of the dome's American developer, Philip Anschutz.

Both cities have plausible bids, which means the decision is likely to be contested. Lawyers across London are already sharpening their appeals. This is partly because the government bowed to pressure from the anti-gambling lobby and scaled back its initial plans to allow eight super-casinos. In doing so it is creating a monopoly which will add greatly to the value of the single licence. Moreover, the regeneration criteria on which it is being awarded are vague enough to give even the dullest lawyer grounds for appeal.

If the government escapes an appeal on the award, it still faces public opposition. Almost 70% of people surveyed by ICM in 2004 opposed super-casinos. Although the numbers have bobbed around since then, most still disapprove.

Critics argue that although casinos elsewhere provide employment and a net economic benefit, they can also increase the incidence of compulsive gambling and local deprivation. Mark Griffiths, a professor of gambling studies at Nottingham Trent University, warns that although problem gambling in Britain is low at present (less than 1% of adults suffer from it), the rate is likely to rise as casinos open. Gerda Reith, a sociologist at Glasgow University, cites an American study which found that living within 50 miles of a casino doubled the risk of becoming a gambling addict.

Besides, those most at risk of becoming addicted are those that the government is already most concerned about: low-income, ill-educated drinkers and smokers from poor areas. Jobless people around Greenwich or Blackpool may be as likely to lose their shirts gambling in casinos as they are to get jobs in them.

That would be a bad reason to block the new casinos, but it should encourage the government to come clean. Casinos, like Shakespearean plays, can be fun. But expecting them to provide a cost-free solution to the country's economic ills is asking too much.

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Monetary policy

# Rate reckoning

Jan 25th 2007
From The Economist print edition

**Interest-rate prospects hinge on pay**

SINCE the Bank of England's surprise decision to raise the base rate to 5.25% on January 11th, the City has been trying to anticipate its next move. The markets swiftly concluded that the cost of money would soon be heading up again to 5.5%. That view was reinforced when the bank narrowly escaped having to write a public letter explaining why inflation had risen more than a percentage point above the government's 2.0% target. The lure of dearer money levitated the pound this week to within spitting distance of $2, an iconic value not reached since 1992.

But sterling dropped back as the markets digested first a speech by Mervyn King, the bank's governor, and then the minutes of the monetary-policy committee's meeting on January 11th. Addressing businessmen in Birmingham, Mr King articulated the open letter he would have written to the chancellor of the exchequer if consumer-price inflation had reached 3.1%—the trigger point—rather than 3.0% in the 12 months to December.

Mr King set out three reasons why inflation had risen over the past year from 1.9% in December 2005. The economy had recovered strongly; inflationary expectations had risen; and companies were trying to pass on higher energy and pension costs. But he sounded a note of optimism about the outlook, thanks to falling oil prices and the brake on import prices from the strong pound. The committee's central view, he said, was that “inflation is likely to fall back in the second half of the year, possibly quite sharply.”

The minutes of the rate-setters' meeting, published on January 24th, also suggested that the City had run ahead of itself in its expectations of higher rates. They revealed that this month's decision had been a close-run thing. Five on the committee, including Mr King, voted for the increase; four, including Rachel Lomax, one of the bank's two deputy governors, and Charlie Bean, its chief economist, voted to keep rates at 5.0%. The committee agreed that a rise in rates would surprise the markets. The hawks saw “no compelling reason to delay”. But the doves worried that the shock ran the risk of “prompting an excessive monetary tightening by shifting up market interest rates”.

Mr King's cautious confidence about the prospects for inflation and the narrowness of the rate-setters' decision both suggest that the bank will now be less aggressive in raising rates than the markets had feared. Much still depends upon new information about the economy. Recent figures have pointed to another turn of the screw. The first estimate for GDP in the last three months of 2006 showed that the economy grew strongly, by 0.8% compared with the previous quarter, and by 3.0% on the same period in 2005. Retail sales in December were bouncier than expected. And manufacturers seem to be regaining the ability to push through price increases, according to a survey from the Confederation of British Industry.

But the numbers most likely to worry the bank are those for this year's pay settlements, almost two-thirds of which are reached in the first four months, mainly in January and April. These are being thrashed out at a time when retail-price inflation, the benchmark measure in negotiations, has risen to a 15-year high of 4.4%. Mr King gave warning in his speech against “a self-defeating process of higher wages offset by higher prices”.

A majority of economists surveyed by Reuters before the minutes came out thought that the bank would raise the base rate to 5.5% by March. But that turned into a minority in another poll after the proceedings had been published. With more doubt now about the bank's intentions, one thing is clear: well-heeled City types will be taking a keener-than-usual interest in the pay deals of lesser mortals in the months ahead.

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Art and cities

# Designer dreams

Jan 25th 2007 | MIDDLESBROUGH
From The Economist print edition

**A run-down industrial town hopes art can restore its fortunes**

APART from a new football stadium and some smart university buildings, most of Middlesbrough looks as though it came to a dead halt in the 1980s. It boomed on steel and chemicals after iron ore was discovered in 1850. Just over a century later, as Britain's traditional industries failed, it seemed to have reached the end of the road. Now civic leaders hope that glitz and glamour can revive it.

The most startling sign of this improbable ambition is an expensive art gallery. The £19.2m Middlesbrough Institute of Modern Art (MIMA) houses the local council's collection of modern British paintings and ceramics. It opens on January 28th with works on loan for the occasion by artists rarely seen in the region—Picasso, Matisse, Jackson Pollock—alongside pictures by contemporary names such as Chris Ofili and Damien Hirst.

The glass-fronted modernist gallery, by Dutch architect Erick van Egeraat, sits on once-derelict land opposite the Victorian town hall and 1960s council buildings. The landscaped space in between has become a vast new square. “Middlesbrough lost its heart years ago,” says Ray Mallon, the town's forthright elected mayor. “Now we have created a new heart.”

Locals are dubious. It looks nice, but they can't see many people going to it; those who want culture go to Newcastle. Mr Mallon is unfazed by such comments. He says MIMA will lure some of the 7m people who live within an hour and a half's drive from the town, and persuade them to spend money there. With 5% of the town's 137,600 residents claiming unemployment—twice the national average—and business registrations at half the national rate, outside money is needed.

Using art for regeneration is a well-tried process, especially in northern England. Liverpool's Tate North gallery and Salford's Lowry Centre succeed because they are part of bigger attractions and in big cities. But Gateshead's Baltic Mills art gallery and Sunderland's National Glass Centre have struggled to draw visitors, and both have needed extra subsidies.

Godfrey Worsdale, MIMA's director, reckons he will achieve his aim of 110,000 visitors a year. Galleries that run into trouble, he says, tend to have single themes with niche appeal. Still, since 96% of MIMA's cost has come from public funds and as two-thirds of the £1m running cost will fall on local taxpayers, the council is taking a risk. “It is not going to be profitable,” says Mr Mallon bravely. “What it can do is make the town profitable.”

There are signs of an upturn. This month the council signed a deal with BioRegional Quintain, a development firm, to spend £200m on building 500 houses, shops, offices, restaurants and leisure facilities on disused docks near the football stadium. Mohammed Bashir, a local property dealer, says that five years ago he wouldn't have dreamed of investing in his home town, preferring Birmingham and London. But over the past four years, encouraged by falling crime rates, he reckons to have bought £12m-worth of Middlesborough land and property. “There's a buzz about the place now,” he says.

Not far from MIMA, high fashion has flourished for some years. In 1982 Steve Cochrane opened Psyche, a shop specialising in new-wave punk style, and turned it into a fashion mecca. Now expanded into a department store, Psyche hosts regular catwalk shows that draw thousands of high-spenders. A clutch of other swanky clothes shops have sprung up nearby.

Mr Mallon muses now about Middlesbrough becoming a “designer-label town”. It may not be as unlikely as it seems. The label on one of the world's most iconic structures, the Sydney harbour bridge, reads “Made in Middlesbrough”.

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**Bagehot**

# Safe in their hands?

Jan 25th 2007
From The Economist print edition

Steve O'Brien

**Never mind Iraq and dodgy loans, Tony Blair thinks the NHS will save his reputation**

IT'S been another miserable few days for Tony Blair. The dawn arrest of a senior aide, suspected by the police of obstructing their loans-for-peerages investigation, sent a tremor of fear through Number 10. Nor could the prime minister be expected to join in the general merriment when "The Trial of Tony Blair"—in which the eponymous villain lands up in The Hague charged with war crimes—aired on network television last week. A subsequent ICM poll in the *Guardian* found that almost two-thirds of those questioned had a lower opinion of Mr Blair than a year ago, including 45% of Labour supporters.

Yet despite the constant pummelling of his reputation, Mr Blair remains quite chipper about both the verdict of history and his precious legacy. Earlier this week, he dropped in to a Downing Street seminar on pensions to proclaim the importance of the reforms that will soon pass into legislation. They were, he said, very New Labour: they started with a basic, universal, foundation, but after that provision would be built on rights and responsibilities.

Extraordinary as it seems, he is also serenely confident that he will be remembered as the man who saved Britain's beloved National Health Service. As he sees it, he made and won the case for a spectacular increase in tax-funded resources for the NHS, while remaining true to its founding principles. Mr Blair also believes that he has won the argument for the quasi-market reforms which—as he belatedly realised—were essential if patients were to get the kind of treatment affluent consumers demand.

How does Mr Blair square this with the unrelenting flow of headlines about financial deficits, threatened hospital closures, redundancies and plummeting staff morale? How can he be so sanguine when even his own ministers, wearing their hats as good constituency MPs, can be found protesting against the local consequences of these policies?

The answer was provided by David Cameron this week. The Tory leader, who was in Bristol to publicise some rather sketchy "mid-term" proposals from his party's health-policy group, made a speech that read like an extended love letter to the NHS and the people who work in it. Distancing himself from the more ambiguous attitude of his predecessors, not least Margaret Thatcher, towards the health service, Mr Cameron said: "I want us to leave no one in any doubt whatsoever about how we feel about the NHS today. We believe in it. We want to improve it. We want to it improve for everyone in this country."

Although he won't be saying so in as many words, Mr Blair is also delighted by the Tories' acceptance of most of what he has been trying to do with the health service. Whether he should be surprised is another matter. The practice-based commissioning he is now so keen on—putting family doctors at the heart of health-care purchasing within the NHS—is an echo of an old Conservative policy known as GP fund-holding.

Even Mr Cameron's attack on “target culture” and his preference for what the Tories call “health outcome objectives” is in line with Mr Blair's own most recent thinking. As a Downing Street adviser commented, just a little too complacently: “Where they're going in 2010 is where we already are.” Only Mr Cameron's touching faith in devolving more power to “health professionals” raises a weary eyebrow from those who have been doing (largely unsuccessful) battle for years with the health service's powerful producer interest groups.

Nor do Mr Blair and Mr Cameron differ much when they are asked why the NHS remains in a state of permanent crisis despite all the money that has been lavished on it. Mr Blair says that his reforms are only just beginning to take effect, and that today's problems are mainly the product of mismanagement from a bygone era. Mr Cameron complains that Labour has made too many mistakes in the past and that long-suffering NHS staff are sick of being subjected to ceaseless change.

## Unfixable

It is, however, possible to take an altogether bleaker view of the future the NHS faces. In the first place, the practice-based commissioning that both leaders set such store by is in trouble. The primary care trusts, which do most commissioning now, are determined to hang on to what they see as the most interesting part of their job. For their part, GPs are reluctant to take on new responsibilities when they suspect the government is trying to think up ways of retrospectively cutting the over-generous earnings it foolishly bestowed on them.

Second, despite the spur of tight future spending constraints, it is highly doubtful whether either a Brown or a Cameron government will have the nerve to see through the closure of inefficient hospitals; but without that, even modest productivity gains will be impossible to achieve. The Tories' campaign to “Stop Brown's NHS cuts” is as cynical as it is shortsighted.

Third, there is the problem of the consultants, the NHS's top doctors. As a recent series of television programmes—in which Gerry Robinson, a successful business troubleshooter, tried to fix the NHS—graphically demonstrated, the most important cadre of professionals in the health service is neither institutionally nor psychologically under the control of managers. That will barely change even if the market-led reforms are fully implemented. Sanctions will continue to bite hardest on managers who are largely powerless to change the working practices of professional staff.

Sadly for Mr Blair, his true legacy is likely to be a growing realisation that despite every effort and colossal sums of money, the health service in anything like its present form is unfixable. In which case, stronger medicine will be needed than Mr Cameron's sentimental fawning over health workers and timid “me-tooism” on policy.

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International Criminal Court

# Let the child live

Jan 25th 2007
From The Economist print edition

Claudio Munoz

**The world's first permanent war-crimes tribunal is proving more robust than expected; even sceptical America is softening its line**

Get article background

WHEN the International Criminal Court (ICC) struggled into being, its well-wishers were unsure how long this fragile creature would survive, let alone if it would vindicate its creators' hopes of dishing out just deserts to tyrants.

Aged four-and-a-half, the tribunal is proving a lustier infant than many predicted. Its prosecutors have delved deeply into horrible wars in Congo, Sudan and Uganda. The court's first trial—of Thomas Lubanga, a Congolese warlord, accused of using children as soldiers—is due to start later this year. The first indictments for the mass killings in Sudan's Darfur region are expected next month. Five leaders of Uganda's rebel Lord's Resistance Army have already been indicted. One has since been killed, but the other four face trial when caught. An investigation into atrocities in a fourth, as yet unnamed, country is due to be announced soon.

As the court's reputation grows, so does the number of countries that have signed up—104 at the last count. They include all the main European states. Japan, which will become its biggest donor by far, is expected to join later this year. But the real change in the court's fortunes stems from a gradual shift in America's attitude: it has moved from outright hostility to some cautious signals that, in some parts of the world, it sees the ICC as useful.

In the court's early days, the administration devoted huge energy to limiting the risk of American citizens being hauled in. Using threats to hold back economic or military aid, it cajoled about 100 states into signing bilateral accords to keep Americans out of the court's grip. Under these deals, countries vowed that Americans would be immune from prosecution for atrocities committed on their soil—and would in no event be sent to the ICC.

John Bolton, America's erstwhile ambassador to the UN, hailed his country's decision in May 2002 to pull out of the ICC (not to be confused with the World Court, also in The Hague) as the “happiest moment” of his government career. Tom DeLay, the former Republican House majority leader, lambasted it as a “kangaroo court...a shady amalgam of every bad idea ever cooked up for world government”. President George Bush called it a “foreign court” where “unaccountable judges and prosecutors can pull our troops or diplomats up for trial”.

Despite the court's repeated assurances, American congressmen and officials feared that the world's sole superpower would become the target of politically-motivated prosecutions.

Although some fears remain, the tone has undoubtedly changed. Mr Bush recently waived restrictions on military aid to 21 countries, and curbs on economic aid to a further 14, despite their refusal to sign bilateral immunity deals.

Senator John McCain, a Republican presidential hopeful, has said he wants to see the United States in the ICC. In an article in the *Washington Post*, he and a former senator, Bob Dole, urged America and its allies “to use their intelligence assets, including satellite technology” to help the ICC in Darfur.

John Bellinger, chief legal adviser to Condoleezza Rice in the State Department, has been the driving force behind the change of attitude. He thinks the campaign against the court undermines broader American aims, such as ending impunity for the worst crimes. “Divisiveness over the ICC distracts from our ability to pursue these common goals,” he has said. “We do acknowledge that it has a role to play.”

Ms Rice has herself urged a softer line, saying America was “shooting [itself] in the foot” by imposing sanctions on those unwilling to sign bilateral immunity deals. Many such states were old American allies who reacted by moving closer to China.

The first sign of a shift came with America's surprise decision not to veto the Security Council's referral of Darfur to the court in March 2005. When Serge Brammertz, the ICC's deputy chief prosecutor, was appointed to head the UN's inquiry into the murder of Rafik Hariri, Lebanon's former prime minister, nine months later, not a grumble was heard from America. Nor did it object when the Security Council voted last summer to transfer Charles Taylor, a former Liberian president, to the ICC's premises in The Hague for trial. And America's ambassador to Uganda has been urging support for the ICC's prosecution of the Lord's Resistance Army rebels, despite criticism from local community leaders who claim that the threat of arrest is impeding the peace process.

On their own, these signals may not amount to much. But together they suggest at least the beginnings of a change of heart. Mixed messages are still coming out of Washington; but the vitriol has gone.

As well as sensing that it may have something to gain from using the court, the Bush administration seems also to have been convinced that the risk of America or Americans being placed in the dock is less than originally feared. Administration officials were impressed by the court's carefully reasoned rejection of the hundreds of allegations it has received regarding America's role in Iraq—including suggestions that it was guilty of aggression or even genocide.

Luis Moreno-Ocampo, the court's chief prosecutor, argued as follows: first, the war involved states (Iraq and America) that are not members and therefore lie outside the court's jurisdiction, unless the UN Security Council (on which America has a veto) decides otherwise. Second, the court intervenes only when the home country fails to. America has already put some of its own soldiers on trial for crimes committed in Iraq.

Third, the crime of “aggression” is still undefined and thus cannot be applied. Fourth, Mr Moreno-Ocampo found no evidence to substantiate a charge of genocide, defined in the court's statutes as an “intent to destroy, in whole or in part, a national, ethical, racial or religious group”, or a crime against humanity, defined as “a widespread or systematic attack directed against any civilian population”. And though he did find evidence of isolated cases of rape, inhuman treatment and “wilful killing” of civilians, they were not sufficiently widespread to meet the threshold of gravity required.

Huge problems still lie ahead for the court, whose “leniency” towards America may disappoint some members. But it is off the danger list. “We have no more concerns about the court's vulnerability,” says Philippe Kirsch, its (Canadian) president.

Even though polls suggest that two out of three Americans favour joining the ICC, America is unlikely to sign up any time soon. The court has been so demonised by the Bush administration (and before that, so quibbled at by the Clinton White House) that it would take years to convince Congress to accept it. But court officials are privately making a bold prediction: one day, America will swallow all its doubts and join.

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**Private jails**

# Locking in the best price

Jan 25th 2007
From The Economist print edition

**Private prisons are now widely accepted, but it's hard to get the terms right**

WHEN Britain stopped dispatching convicts to its American colonies in 1775, it had to find some other way of dealing with miscreants. So it arranged to have them put away in ships which never left London; convicts were simply locked up in vessels moored on the Thames, whose owners were paid for the service. A few years later, a new penal colony in Australia eased the strain; and prisons shifted firmly back to state control, at least where states existed, for the next two centuries.

The pendulum has swung back. America introduced the idea of private prisons in the 1980s; at that time most Europeans would have hated the thought of farming out one of the state's most sensitive functions. But gradually more countries have come to accept the idea that incarceration—under terms laid down by the state—is one of the things which the private sector might do more efficiently.

**You'll love our rates**

First the concept spread through the English-speaking world. Then the French came up with semi-private jails, in which the state employs only the guards; now fully or partly privatised prisons are planned in countries from Denmark to Hong Kong. A growing number of poor countries are trying new models, as they look for better, cheaper ways to accommodate prisoners.

The rich world still leads the way. More than 17% of Australia's inmates are held in private prisons, says Stephen Nathan, the editor of *Prison Privatisation Report International*. Next comes Britain, with 10%, and America at 7%. These markets are dominated by big prison-services firms such as GEO, MTC and Serco, which claim that private jails are better, cheaper and more accountable in both construction and management.

Developing countries are trying other variations. In Latin America, prison management has been outsourced to private contractors, non-profit organisations and even religious groups. In Belize, members of a local Rotary club help manage a prison. Proponents of private prisons in South Africa say that they are less crowded than state-run ones, and better equipped to give inmates education and training. They are also better able to limit the influence of gangs and thus to prevent bullying, sexual assaults and venereal disease. The semi-private “European” model has been adopted elsewhere. Chile has been especially keen on this approach: it recently opened three new semi-private prisons. Six of Brazil's 27 states have semi-privatised jails.

Despite sometimes horrific conditions and recent spells of inmate violence, parts of Brazil are considered innovative in prison management. More than 20 small jails in São Paolo state are run jointly by state and local non-profit organisations (none was affected by the recent riots). Fiona Macaulay, a Latin America specialist at Britain's University of Bradford, says these are less costly than state-run or semi-private prisons and result in lower recidivism (repeat offender) rates. A faith-based regime, known as the Association for Protection and Assistance to the Convicted, has been developed in Brazil over the past 30 years and is now used in 14 countries; it also claims low rates of recidivism.

Comparing prisons is tricky, and that leaves plenty of ammunition for critics of private jails. They argue, plausibly, that big prison-management companies, especially in America, distort the criminal-justice system by lobbying for tougher sentencing. Mr Nathan terms it “Capitalism 101”. “You've got to expand your markets—you've got to fill your beds.”

Israel's supreme court is considering a lawsuit brought by opponents of an 800-inmate private prison being built at Be'er Sheva, who claim it is unconstitutional. Meanwhile some governments are having second thoughts. Canada and New Zealand have both reversed earlier decisions to run prisons on private contracts. Meanwhile, South Africa is haggling with a firm it accuses of having pushed it into an unnecessarily costly contract. “We ordered a Rolls-Royce but we should have ordered a Toyota,” a government adviser has haplessly admitted.

Cutting costs through privatisation always sounds like an attractive option; but cutting exactly the right deal with

private providers of such a crucial service is difficult, and the price of failure is high.

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World forums

# Kingdoms of this world, and otherwise

Jan 25th 2007 | DAVOS AND NAIROBI
From The Economist print edition

**The rich, the poor and their advocates, lay and clerical, gather in different places to ponder the fate of the earth**

BOTH for the rich and powerful and the poor and angry, this was a week of setting the world to rights. More than 2,400 movers and shakers—about half of them well-heeled corporate types but also including 24 heads of state and government—gathered in Davos, Switzerland, for the annual Alpine retreat of the World Economic Forum. As befits a country where skiers may soon be an endangered species, the hottest topic this year was climate change, with worries over the Doha round of world trade talks (see article) coming a close second.

Reuters

**Praying together, staying together: Tutu hits Nairobi**

Somewhere towards the other end of the political spectrum, a noisier gathering was taking place in east Africa. About 80,000 people of many ideological and sartorial stripes convened for the World Social Forum, held this week at a stadium on the concrete outskirts of Nairobi. Their common denominator? Little more than a belief that a more equitable and peaceful world might just be possible.

At first glance, it looked like a jamboree for old lefties: Greek Marxists agitated for the revolution, posters and T-shirts denounced George Bush as a “Toxic Texan” and there was a basket of right-on causes to choose from. But it would not quite be fair to dismiss the African get-together as a deliberately down-market version of Davos, although that was the spirit in which these counter-cultural gatherings began in 2001. For one thing, the Social Forum wasn't just on a quest for an elixir against global capitalism; there was more talk about practical ways to fight poverty.

This was true of the strong Christian contingent, which was stirred into action at the opening rally by Desmond Tutu, a retired Anglican archbishop from Johannesburg. The biggest single group of anti-poverty campaigners in Nairobi were Roman Catholics, who accounted for 20,000 or so of the delegates.

Many people in the rich world who are suspicious of the Vatican's role in the developing world—because of its opposition to condoms and the curbs it has helped to place on American-financed family-planning aid—might be surprised by the scale of its humanitarian activities. It claims to look after 25% of AIDS patients worldwide. Caritas, its main aid organisation, operates in 162 countries. In parts of Africa which don't interest many other powerful folk, the Catholic church has been an advocate for the poor—even more so under Pope Benedict XVI.

On his watch, the church has spoken up more in favour of debt relief, land rights and fair elections. In his previous role as Cardinal Joseph Ratzinger, the guardian of Catholic doctrine, he was harsh on “liberation theology”, which sought to equate salvation with socialism. But as pope, he has certainly not discouraged social welfare activities to help the poor.

The Catholic church's prominence in the Social Forum—and the comfort its representatives feel in such leftish company—also reflects several other factors. One is that Catholics and secular radicals alike are dismayed by

America's role in Iraq; and some feel buoyed by the recent ascendancy of pugnacious politicians in Latin America. Another is that Catholics sense a need to differentiate their brand from some forms of Protestantism.

Among some Catholics in Nairobi, there was a clear trace of sympathy for the “Christian socialism” proclaimed by leaders like Venezuela's Hugo Chávez, Bolivia's Evo Morales, and Nicaragua's newly returned Sandinista, Daniel Ortega. Mr Chávez swore himself in for a second term earlier this month “in the name of Christ, the greatest socialist in history”. Mr Ortega, similarly, told his compatriots that Mr Morales's programme for Bolivia was “the vision of Christ”. In Africa, too, the rise of Pentecostal and other energetic churches has had a sobering effect on the Vatican. Charismatics tend to push a prosperity gospel, promising riches on earth. In Kenya, Catholic bishops focus on basic needs, telling believers to “live in the world as it is.” What the poor need, they say, are real tools: water, medicines, schools, jobs.

Religion is also present in Davos, if you know where to look amid the lords of Mammon. One of the Economic Forum's sideshows is a committee of 100 notables, including Saudi royals, a Jewish rabbi and another retired Anglican archbishop, George Carey, whose mission is to improve ties between their respective faiths and cultures.

A bit of healthy competition, then, to find out which miracle is easier to perform: answering the cries of the poor or muffling the sound of civilisations clashing.

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# Correction: Simo Kyllonen

Jan 25th 2007
From The Economist print edition

Simo Kyllonen, mentioned in last week's article about beauty and electability, is a fine-looking fellow, but he was still unsuccessful in Finland's parliamentary election in 2003. This error has been corrected online. Apologies.

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European business

# Plus ça change

Jan 25th 2007 | LONDON, MUNICH AND PARIS
From The Economist print edition

**Two deals show how families and politicians can scupper takeovers in Europe**

David Simonds

FIVE of the world's top ten mergers and acquisitions last year took place in Europe, and the value of European deals exceeded those in America for the first time. Many of the deals were cross-border acquisitions, dominated by Spanish firms buying everything in Britain that was not nailed to the floor. Does that mean corporate Europe has suddenly developed a taste for Anglo-Saxon capitalism, takeover bids, mergers and all?

Not exactly. The European takeover trail is full of elephant traps and other pitfalls for the unwary, as two stalled deals illustrate. This week MAN, a German truck and engineering group, formally had to abandon its bid for Scania, a Swedish rival. At the same time Gaz de France (GDF) revealed just how long and drawn-out its frustrated plan to merge with Suez, a French utility group, has become.

The MAN deal failed because its approach was seen as hostile by Scania's two biggest shareholders, Volkswagen (now in effect controlled by the Porsche and Piëch families) and Investor, the investment company owned by the Swedish Wallenberg family. MAN's chief executive, Hakan Samuelsson, a Swede and a former senior manager at Scania, had been trying to woo the pair behind the scenes last summer when a press leak forced him to go public with a bid before he could reach agreement with the controlling shareholders.

Having blundered into an unwelcome public fight, he paid the price when Volkswagen bought 20% of MAN itself, thus ensuring that it would be able to set the terms of any deal. Now all three companies are trying to work out some kind of friendly way of merging their truck interests in order to exploit growth markets in India, China and South America.

Until a few years ago MAN was a typical example of old-style German capitalism, with controlling stakes held by Allianz and Munich Re, two leading insurance companies. Now, after only a couple of years with a full free float, a side-effect of its bungled bid for Scania is that MAN once again has a dominant shareholder in the shape of Volkswagen, which is heading back into old-fashioned family ownership under the influence of its supervisory-board chairman, Ferdinand Piëch. So much for progress.

## Political backfire

While families blocked MAN, politicians and trade unions have scuppered the attempt by Suez to arrange a friendly merger with GDF, still 80% owned by the French state. Because the deal would involve further privatisation of GDF, the Suez/GDF plan was first revealed by the French prime minister, Dominique de Villepin, last February. But legal obstacles have now pushed the merger well beyond this spring's French presidential elections. A mooted rival bid for

Suez by François Pinault, one of France's leading businessmen, was abandoned last week. Mr Pinault said the situation was not calm enough: whatever he meant by that, observers think the truth is he could not afford to buy Suez on his own.

Other eyes coveted parts of Suez itself. With Europe's national energy markets due to be fully liberalised in July, there is lots of takeover activity as companies try to strengthen their positions. Most energy companies want to acquire gas and electricity supply and distribution, in order to be able to sell both to customers. A dual-fuel energy company can also coin money by selling gas to industrial and domestic consumers when prices are high, and using it as a cheap way of generating electricity when they are low.

Italy's largest electricity supplier, Enel, suddenly declared last February that it wanted to buy Electrabel, the Belgian electricity supplier owned by Suez. It seems that Enel's boss, Fulvio Conti, had been persuaded by Alain Minc, a veteran French corporate adviser, that he should pounce on Suez (and perhaps even try to buy the whole company) to gain scale and get hold of its seven nuclear power stations, which would help Italy meet its commitments to reduce greenhouse-gas emissions.

But Suez and GDF had been secretly plotting for five years to effect a merger as the state utility was privatised. The Italian move forced their hand. Gérard Mestrallet, Suez's boss, and his opposite number at GDF decided they had to speed up their plans. They had to tell Mr de Villepin because they needed his help in pushing through a law to increase the percentage of GDF shares that could move into private hands. An earlier political deal, to appease socialists and the communist trade union that has a stranglehold on GDF, had limited the private stake to 30%.

Mr de Villepin saw a chance to gain popular support defending French jobs by rallying to the Suez cause to hold off any Italian takeover. Mr Mestrallet was foolish enough to allow the prime minister to announce the deal at a hastily arranged Saturday morning press conference at which he himself was barely allowed to speak. He now regrets that this made the whole deal look like a quick political fix to stymie the Italians, instead of a long-planned merger that made lots of industrial and financial sense. France's finance minister, Thierry Breton, leant heavily on French members of parliament last summer to get them to support a new law to approve a change to the privatisation increasing the private stake.

But further pitfalls lay ahead. GDF was found by the French courts not to have followed strict labour laws about employee consultation. The upshot is that the deal has been postponed until July when the European energy liberalisation comes fully into effect. There are some suggestions in political circles that many of those involved are tired of the deal, given all the obstacles in its path. But Mr Mestrallet remains determined to proceed and is philosophical about his embarrassing stumble. “We've been working on this for five years, so another six months is not going to make much difference, especially when the deal will determine the shape of European energy for the next 50 years,” he says. The deal will present the new French president and his or her government with one of their first economic tests after the election.

Last year's spate of deals shows that continental Europe is slowly drifting towards a version of the capital-markets model favoured in Britain and America, spurred by privatisation and the full enforcement of a single market with a single currency. But the obstacles that have delayed these two deals show that there is still some way to go.

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German corporate governance

# Ring of steel

Jan 25th 2007 | FRANKFURT
From The Economist print edition

**ThyssenKrupp puts itself into a straitjacket**

WHAT a pity that Gerhard Cromme, chairman of ThyssenKrupp and one of the leading lights of corporate Germany, practises so little of what he preaches. Last week he presided over a power shift that irreversibly gave control of his company to one minority shareholder. Small family firms get up to things like this all the time, but ThyssenKrupp is a top-30 listed firm with around 67% of its shares in free float.

This is not the only example of how Mr Cromme's own behaviour contradicts the recommendations of an official corporate-governance commission, of which he is the chairman. According to Germany's corporate-governance code, adopted in 2002, a former chief executive of a company should not head its supervisory board, for instance, unless there is a special reason; but Mr Cromme does just that.

At ThyssenKrupp's annual meeting on January 19th, he pleaded that the conglomerate was a “special case” to justify giving the Alfried Krupp Foundation, set up in memory of the firm's founder, the right to nominate three members to the supervisory board in perpetuity. With 25.1% of the shares, another 2.8% owned by the Thyssen Foundation, and the right to nominate two members, the Krupp Foundation was already in a position to ensure the firm's stability and to deter unwanted corporate raiders. Even so, the proposal narrowly secured the necessary 75% of votes present. It is unlikely ever to be reversed, since that would require the Krupp Foundation to vote against itself.

“I have no sympathy for an arrangement that in effect shuts out the rightful influence of other shareholders,” said Christian Strenger of DWS, Germany's biggest fund manager. “Bad for the reputation of corporate Germany,” added Hans-Christoph Hirt of Hermes, another fund manager. It is not as if ThyssenKrupp is in trouble and needs protection: in the final quarter of 2006 its pre-tax profits surged to €1 billion ($1.3 billion) on sales of €12 billion.

The irony for Mr Cromme is that ThyssenKrupp's own efforts to take over Dofasco, a Canadian steelmaker, have been thwarted by the obstinacy of a Dutch foundation set up as a “poison pill” by Dofasco's owner, Arcelor, during its takeover battle last year with Mittal Steel. Mittal had agreed to sell Dofasco to ThyssenKrupp after the Arcelor merger, but the foundation will not co-operate. Its decision was upheld by a court in Rotterdam on January 23rd, forcing ThyssenKrupp to rethink its strategy in North America. That is a foretaste of how the Krupp Foundation could possibly block the plans of ThyssenKrupp managers, and a majority of its shareholders, in future. Nice one, Mr Cromme.

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McDonald's

# Happy meal

Jan 25th 2007
From The Economist print edition

**How a Frenchman is reviving McDonald's in Europe**

WHEN Denis Hennequin took over as the European boss of McDonald's in January 2004, the world's biggest restaurant chain was showing signs of recovery in America and Australia, but sales in Europe were sluggish or declining. One exception was France, where Mr Hennequin had done a sterling job as head of the group's French subsidiary to sell more Big Macs to his compatriots. His task was to replicate this success in all 41 of the European countries where anti-globalisers' favourite enemy operates.

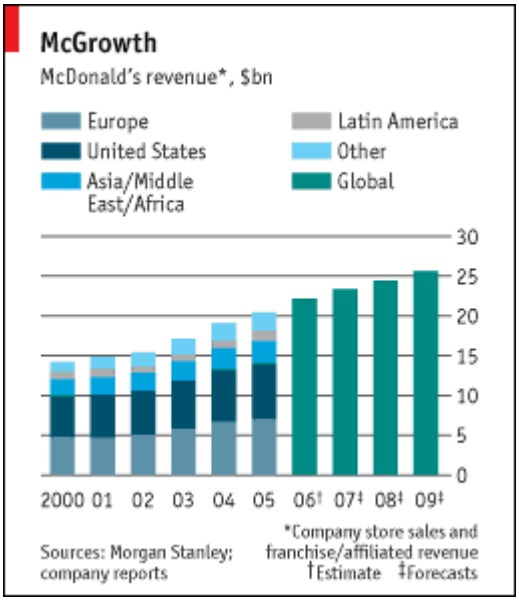
So far Mr Hennequin is doing well. Last year European sales increased by 5.8% and the number of customers by 3.4%, the best annual results in nearly 15 years. Europe accounted for 36% of the group's profits and for 28% of its sales. December was an especially good month as customers took to seasonal menu offerings in France and Britain, and to a promotion in Germany based on the game of Monopoly.

Mr Hennequin's recipe for revival is to be more open about his company's operations, to be “locally relevant”, and to improve the experience of visiting his 6,400 restaurants. McDonald's is blamed for making people fat, exploiting workers, treating animals cruelly, polluting the environment and simply for being American. Mr Hennequin says he wants to engage in a dialogue with the public to address these concerns.

He introduced “open door” visitor days in each country which became hugely popular. In Poland alone some 50,000 visitors came to McDonald's through the visitors' programme last year. The Nutrition Information Initiative, launched last year, put detailed labels on McDonald's packaging with data on calories, protein, fat, carbohydrates and salt content. The details are also printed on tray-liners.

Mr Hennequin also wants people to know that “McJobs”, the low-paid menial jobs at McDonald's restaurants, are much better than people think. But some of his efforts have backfired: last year he sparked a controversy with the introduction of a “McPassport” that allows McDonald's employees to work anywhere in the European Union. Politicians accused the firm of a ploy to make cheap labour from eastern Europe more easily available to McDonald's managers across the continent.

To stay in touch with local needs and preferences, McDonald's employs local bosses as much as possible. A Russian is running McDonald's in Russia, though a Serb is in charge of Germany. The group buys mainly from local suppliers. Four-fifths of its supplies in France come from local farmers, for example. (Some of the French farmers who campaigned against the company in the late 1990s subsequently discovered that it was, in fact, buying their produce.) And it hires celebrities such as Heidi Klum, a German model, as local brand ambassadors.




In his previous job Mr Hennequin established a “design studio” in France to spruce up his company's drab restaurants and adapt the interior to local tastes. The studio is now masterminding improvements everywhere in Europe. He also set up a “food studio”, where cooks devise new recipes in response to local trends.

Given France's reputation as the most anti-American country in Europe, it seems odd that McDonald's revival in Europe is being led by a Frenchman, using ideas cooked up in the French market. But France is in fact the company's most profitable market after America. The market where McDonald's is weakest in Europe is not France, but Britain.

“Fixing Britain should be his priority,” says David Palmer, a restaurant analyst at UBS. Almost two-thirds of the 1,214 McDonald's restaurants in Britain are company-owned, compared with 40% in Europe and 15% in America. The company suffers from the volatility of sales at its own restaurants, but can rely on steady income from franchisees. So it should sell as many underperforming outlets as possible, says Mr Palmer.

Mark Wiltamuth, an analyst at Morgan Stanley, estimates that European company-owned restaurants' margins will

increase slightly to 16.4% in 2007. This is still less than in the late 1990s and below America's 18-19% today. But it is much better than before Mr Hennequin's reign. He is already being tipped as the first European candidate for the group's top job in Illinois. Nobody would call that a McJob.

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**Electricity in South Africa**

# Power struggle

Jan 25th 2007 | JOHANNESBURG
From The Economist print edition

### Why South Africa is plagued by power cuts

Get article background

MOST of South Africa was briefly plunged into darkness last week by a particularly severe power cut—the latest of many and a cause of growing concern. In 2006 Cape Town suffered repeated power cuts for a few months. Johannesburg's residents have also been plagued by outages. The government plays down the problem, but business is getting worried and large companies, such as First National Bank, are investing huge sums to buy their own generators. Is it time for South Africans to start stocking up on candles?

Eskom, the state-owned firm that produces 95% of the country's electricity, says eight generating units went wrong and had to be shut down on January 18th, reducing generating capacity by 4,600 megawatts. Other power stations had already been taken offline for routine maintenance. With one-quarter of its generating capacity unavailable, Eskom had no choice but to ration supply. Although the problems were resolved within a few days, such rationing may become commonplace in future because South Africa faces an unsettling electricity crunch. Eskom has been saying its current capacity will not be enough to meet peak demand in the middle of this year, and will not even meet baseline demand by 2010.

iAfrica

**Unplugged**

Its plan to fix things involves spending 97 billion rand ($13.6 billion) over five years to build new power plants, expand existing ones and bring others out of retirement. Some of the money is also being spent on upgrading and expanding transmission and distribution networks. But the plan, announced by the government in 2004, has come a bit late. New power plants take years to build. With the southern winter not many months away, Eskom is racing to get mothballed power stations running again and to complete two new ones. If it fails to deliver, the result could be a cold and dark winter not only for South Africa but also for its neighbours, most of which depend on Eskom for their power.

The firm insists it will be ready in time. But even if it is, supply will be very tight and any hiccup could mean further power cuts. The problem is not just lack of capacity, but poor management, say critics. The National Energy Regulator found that last year's outages in the Western Cape were largely due to Eskom's negligence and improper maintenance. Eskom disputes this.

Why has South Africa taken so long to wake up to this problem? Over the past decade Eskom focused, understandably, on bringing electricity to the millions left in the dark under the apartheid regime—a scheme that has been a spectacular success. The economy also grew faster than expected, fuelling demand and eroding the power surplus South Africa enjoyed for years. But a debate within the government over Eskom's future, and the role of the private sector, also held things up. The government has now said that private firms should generate 30% of future electricity. But it seems to be in no hurry to meet this target, as the licensing process for new power plants has been slow.

Even if supply is sorted out, the problem of distribution will remain. Many power cuts are due to the decrepitude of the grid. Much of it is owned, operated and regulated by local municipalities, which have failed to maintain it properly. Johannesburg has now started spending money to improve its system, but the process will take years. The central government has tried to aggregate distribution into six regional bodies, but the plan has run into opposition from municipalities, which are reluctant to lose their electricity revenues unless properly compensated. The combination of tight supply, dodgy municipal distribution and regulatory uncertainty should power sales of private generators for some time.

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**Coffee**

# Excellence in a cup

Jan 25th 2007 | VIÇOSA
From The Economist print edition

**A competition promotes trade in coffee based on quality, not just quantity**

ONE morning last month in an airy hall at the Federal University of Viçosa, Brazil, the only sound to be heard was a chorus of zestfully inelegant slurping. Twenty-four black-aproned judges were wielding their distinctive tasting spoons at the Cup of Excellence competition, searching for the country's best coffee.

“My objective is to differentiate coffee,” says Susie Spindler, who started the competition in 1999 and now conducts it in seven Latin American countries. The competition is open to any grower in each country, tasting and scoring is systematic and blind, and the winning beans are sold worldwide in an online auction. By focusing on quality and transparency, Ms Spindler has not just ferreted out sublime coffees from some unexpected sources, but has connected the best growers to buyers who are prepared to pay for quality.

With global exports worth $9 billion in 2006 supporting some 25m coffee-growing families, coffee is an important source of income for many countries. But although the trade is profitable for importers and roasters, it has confounded governments and NGOs hoping to use the bean to stimulate developing economies. The collapse of trade barriers, a jump in production and a tendency by the largest roasters to treat coffee as a uniform commodity caused prices to fall to historic lows.

But a countervailing trend led by Starbucks and other “specialty” roasters has introduced drinkers to coffee differentiated by origin and type. Small roasters such as Stumptown, based in Portland, Oregon, are taking this approach further, borrowing concepts such as terroir, vintage and appellation from the wine world, taking the utmost care in roasting and preparation, and emphasising quality. “It's a different world,” says Joel Pollock, Stumptown's head roaster and one of the judges in Viçosa.

As a result, the coffee trade has bifurcated in the past decade into commodity coffee, sold in large quantities at a low price, and specialty coffee, where quality rules. There is little middle ground. Growers producing unexceptional coffee must either cut costs to compete with big, mechanised farms—impossible for most—or improve quality. The benchmark “C” price is set at the New York Board of Trade, and varies depending on the weather, the level of demand, and other factors. The aim of Cup of Excellence and other schemes is to enable high-quality coffees to differentiate themselves and command a premium over the C price. In Brazil, for example, investments in quality can increase a farmer's profits by 50%.

But Brazilian growers are relatively well off. For poorer farmers in less developed countries, even modest investments that would greatly improve their coffee can be out of reach. In such places, targeted assistance can help. “Quality coffee can be a significant driver in ending poverty,” says David Browning of TechnoServe, an NGO that promotes entrepreneurship among the rural poor. The tasting expertise and price-discovering transparency of Cup of Excellence can, he says, uncover “remarkable global competitive advantages” in some regions. Starbucks'CAFE practices, Fair Trade and other schemes can have a similar effect in some countries by providing technical and management assistance, improved facilities and access to credit.

With just under 800 bags of coffee (of 60kg, or 132lb, each) in its Brazil auction, Cup of Excellence is insignificant alongside worldwide production of around 100m bags a year. Yet it is influential. Trade in the best coffees is now distinct from the C market. But old habits die hard: “I don't take my eyes off the C price,” says Paulo Almeida, who won first prize in Brazil's Cup of Excellence competition in 2001 and went on to sell his coffee for $700 a bag, doubling his farm's income. The new diversity of buyers gives farmers a chance to maximise revenue by selling their coffee through many channels simultaneously: their best through internet auctions, a specialty grade through Fair Trade or other co-operatives, a commodity grade to big exporters and the rest to local markets. “It's a matter of finding the right market for each bean,” says Mr Pollock.

All of this, says Ms Spindler, “changes what is possible for coffee.” Certainly it has changed things for Fazenda Esperança, the top producer in this year's contest in Brazil. In the online auction on January 16th, 21 bags of its coffee fetched almost $40,000 from Japanese and Taiwanese bidders—more than ten times the C price.

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Gambling in Macau

# Betting on growth

Jan 25th 2007 | MACAU
From The Economist print edition

**Las Vegas has been dethroned as the world's biggest casino centre**

IT IS a typical Friday evening in Macau and three women are singing on stage at the Las Vegas Sands Casino in front of an audience of thousands. But no one is listening. Everyone is jammed around the 800 tables, focused on the flip of cards, the spin of the roulette wheel or the roll of dice. Opened in May 2004 with 360 tables, the casino has been expanding ever since and is now the largest under one roof in the world. It is just one of many new casinos in Macau. In September another Las Vegas operator, Steve Wynn, opened a casino aimed at a slightly wealthier clientele; it was followed in October by the Galaxy, intended for a less affluent crowd. According to figures released this week, Macau's gambling receipts increased by 22% in 2006 to reach 55.9 billion patacas ($6.95 billion), placing Macau just ahead of the Las Vegas strip, previously the global leader.

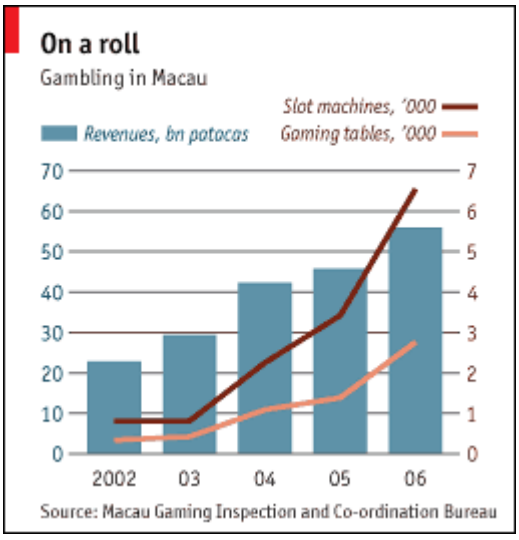
The customers, primarily from mainland China but also from Hong Kong and South-East Asia, show some clear preferences. They like clean, new facilities: the no-smoking room at the Sands is overflowing. They like to take part, not just watch: Macau has only half as many visitors as Las Vegas. They also like to shop and eat well. In the lobby of the Wynn Casino there is a long queue at the Louis Vuitton store (its bags are said to bring luck) and the elegant Chinese restaurant is full.

All of this is bad news for Macau's old casinos. Until 2002, gambling was the monopoly of Stanley Ho, a politically connected Hong Kong tycoon who continues to dominate the market with 17 casinos. But at the Palace, a floating casino in an ideal spot near the ferry from Hong Kong, the carpet is worn, the grimy dining room is empty and on the gambling floors upstairs there is not a single punter. Not far away at the Lucky Dragon, a casino Mr Ho carved out of an office building in 2005 to compete with the new arrivals from Las Vegas, a few people sit listlessly on stools around an electronic roulette wheel.

Mr Ho is no fool. His business model is already changing. A vast casino, the Grand Lisboa, is taking shape behind his current Lisboa flagship. Star Cruises, the world's third-largest cruise line, said on January 22nd that Mr Ho had purchased a large stake and that it would build a big new casino in Macau. And MGM, another big Las Vegas operator, has almost completed its own vast new casino with its local partner, Mr Ho's daughter Pansy.

Meanwhile, Mr Wynn will double the size of his casino in July. A bigger Galaxy has already begun to take shape on Macau's shoreline. Then there is the Venetian, a $2 billion Las Vegas Sands project. As well as a vast casino, it will include a 15,000-seat arena, a convention centre, a shopping mall with 190 stores (and 160 more on the way), and 12 hotels arranged along a Venice-style canal. Other new casinos are on the drawing board, too.

The number of visitors to Macau has grown from 10m in 2003 to 22m in 2006 and Goldman Sachs, an investment bank, estimates the number will reach 45m by 2009. Yet the boom has put pressure on wages and new competition is coming from Singapore and perhaps from Hong Kong. Fragile balance sheets and heavy investment demands prompted Standard & Poor's, a rating agency, to place negative credit outlooks on Sands in May and Galaxy in December. Any other industry would worry, but casinos are not for the nervous. “We describe this as spitting on the floor,” says William Weidner, Sands's president. “You can't miss.”

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Hyundai Motor

# Heading down a dangerous road

Jan 25th 2007 | SEOUL
From The Economist print edition

**South Korea's future is tied to the deepening troubles at Hyundai Motor**

THEY were once the butt of jokes. The quality of Hyundai cars was said to be so poor that they could only be sold with extended warranties to students in America. But having been the 13th-biggest carmaker in the world a decade ago, Hyundai Motor now ranks sixth; sales over the period increased fivefold, making the South Korean firm the second-biggest Asian carmaker after Japan's Toyota. In 2006 the firm placed third, ahead of Toyota's main brand for the second time in three years, in America's influential J.D. Power Initial Quality survey. Only Porsche and Toyota's luxury Lexus marque scored higher.

Reuters

**The workers demand bigger bonuses**

Hyundai Motor is a pillar of the South Korean economy. Along with its Kia subsidiary, it took a colossal 73% of the local car market last year. And with shipments of 1.9m vehicles in 2006, the firm accounts for 4.6% of South Korea's exports. This success is all the more remarkable considering the troubles that regularly seem to engulf the company. Hyundai Motor has endured deep financial difficulties and has been weighed down by corruption scandals and labour disputes. In some ways, it exemplifies its home country.

Now it faces new problems. On January 18th South Korean regulators fined the company 23 billion won ($24.5m) for violating competition rules, the second-largest fine of its type in the country's history (the largest was against Microsoft). Chung Mong-koo, its chairman, is on bail facing corruption charges. New disputes have broken out with workers over bonuses. Domestic sales are weak. The firm's share price has fallen by more than 25% in the past year, and the strengthening South Korean currency threatens exports. Once again, Hyundai Motor is struggling.

The company is no stranger to controversy and money troubles. The financial crisis that began in Asia in 1997 dealt a huge blow to the giant business group, or *chaebol*, to which Hyundai once belonged. Huge debts forced the car firm to lay off 10,000 workers, and the group was eventually bailed out in a government-brokered deal in which it was divided into several parts, each run by a different son of its founder, the late Chung Ju-yung, who was forced to resign.

The motor business went to Chung Mong-koo, who is alleged to have made illegal share transfers to enable his family to maintain management control. He was charged with embezzlement and breach of trust last April; the verdict is due in February, and prosecutors are calling for a six-year jail term. The company's recent fine followed a separate nine-month investigation by prosecutors into the imposition of restrictions and excessive sales targets on independent dealers. And the Fair Trade Commission is investigating allegations that Hyundai Motor colluded with affiliates to put pressure on component suppliers to cut prices.

Nor are the company's troubles confined to the courts. Hyundai Motor has suffered strikes in 19 of the past 20 years. Last year a three-month strike cost the company 1.6 trillion won and more than 100,000 vehicles in lost production. On January 15th further strikes crippled three car plants for eight hours following a row between management and

unions over bonus payments. (Managers had cut bonuses for 2006 because production targets had not been met—thanks to strikes.)

With the won rising and demand at home slowing, the company's prospects are deteriorating. Hyundai remains undaunted. It forecasts sales growth of 9.4% for its own brand and 22% for Kia in 2007. But the strength of the won has forced it to raise prices, and Chung Mong-koo's legal troubles have delayed the opening of new plants in America and Europe.

Hyundai still has lots of political capital. Chung Mong-koo's father, as boss of the country's biggest *chaebol*, led South Korea's growth in a wide range of industries from ships to computer chips. He was also at the forefront of efforts to unite the two Koreas, which helped to secure the Nobel Peace Prize for Kim Dae-jung, a former president. So there have been calls for the younger Mr Chung to be let off in the “national interest”. The danger is that today's woes will distract attention from a far bigger threat to Hyundai and, indeed, to South Korea as a whole: being squeezed between the high-tech Japan on one side and low-cost China on the other.

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Face value

# The careful climber

Jan 25th 2007
From The Economist print edition

**Jamie Dimon of JPMorgan Chase is working his way back to the pinnacle of the financial-services industry**

Landov

HE HAS been called abrasive, foul-mouthed, brash and unpredictable; but also brilliant, charismatic, caring and deeply focused. Whatever one's view of Jamie Dimon, few would dispute that he is already, at the relatively tender age of 50, something of a financial legend. That would be reward enough for many bankers, but not for the man described by *Fortune* last year as “the toughest guy on Wall Street” and included by *Time* in its list of the world's 100 most influential people.

Having reached the summit of financial services a decade ago at Citigroup, as Tenzing to Sandy Weill's Hillary, Mr Dimon fell out with his mentor and was cast down the mountain. After 18 months pondering his next move—during which he let off steam by taking boxing lessons—he took the top job at Bank One, a troubled bank based in Chicago, which he turned around and sold to JPMorgan Chase for $58 billion in 2004. Mr Dimon took the reins of the resulting banking giant—with 174,000 staff and $1.4 trillion in assets—a little over a year ago. His mission is to tidy up the group after multiple mergers, lift its mediocre financial performance and, eventually, propel it past Bank of America and Citi to the number-one slot in American banking. This time he wants not only to make it to the top, but to stay there.

Analysts have applauded his steady progress so far. JPMorgan Chase's return on equity, at 13%, lags that of most of its peers. But the figure is moving smartly in the right direction, up from 8% in 2005. The latest quarterly results beat expectations, and the integration of Bank One has gone smoothly. Investors have noticed: the share price is up by 25% since Mr Dimon took over.

To get to where he is now, Mr Dimon has had to evolve from a dealmaker and post-merger mechanic into a dab hand at organic growth. On the retail side he is doing this by opening new branches—460 last year—and putting more salespeople in each branch, trained to sell cards and other products to account-holders. At the investment bank he has improved risk management, brought more consistency to its notoriously volatile earnings and plugged gaps in alluring areas such as commodities.

Despite its complexity, the one-stop-shop model in financial services makes sense, he maintains, even if it is no longer as trendy as it was after Citigroup's creation. Having a mix of businesses brings more stable earnings and can boost income through cross-selling. Each of the bank's six divisions is, Mr Dimon insists, better off because of the other five. Though “we must constantly ask if we lose something by adding more,” the bank should, like Wal-Mart, be able to keep piling on new offerings, if customers want them. “More, better, faster, quicker, cheaper” is his oft-repeated mantra.

“Cheaper” comes last but not least. Mr Dimon's cost-cutting zeal is as well known as his propensity to shout down dozy managers. On his arrival he set about closing corporate gyms, ejecting executive coaches, ripping out 50,000

unused (but paid-for) phone lines and selling excess office space inherited through mergers. But these moves are not only about saving dollars, he says. The executive coaches had to go chiefly because “we have to be clear that managing is the job of managers, not outsiders.” This view extends to other areas, such as technology. Mr Dimon, who by common consent has a keener understanding of his firm's systems than almost any other banking chief executive, believes in taking responsibility for key functions, not farming them out to costly specialist firms. “Technology is to us what manufacturing is to General Motors,” he says. Well-designed systems are a “moat”, protecting banks from rivals' incursions.

The division heads charged with executing his strategy do not have the easiest of times. Mr Dimon is a hands-on manager with an unnerving eye for detail: he has been known to fire off hundreds of e-mails and short phone calls in a single day, asking why this or how that. He also keeps his lieutenants on their toes by nurturing a dozen or so “culture carriers” at any one time. These young middle-managers, seen as possible future leaders, are invited for lunch or on trips, and are encouraged to call him regularly with news from the trenches, good or bad—which must be nerve-racking for their immediate bosses.

But managers say Mr Dimon also wants them to give as good as they get, just as Mr Weill did with him in the early days. Fittingly for someone who studied psychology at university, he sees verbal sparring as a way to get to the truth. The atmosphere has become more open since he arrived—and, in some ways, more easy-going. He expects dedication but urges colleagues to put family and hobbies ahead of the job. Leading by example, he has taken up the guitar, and wrapped up his interview with *The Economist* in time to pick his daughter up from school.

## One slip and you're gone

Though he has won plaudits for his steady start at JPMorgan Chase—and favourable comparisons with Citigroup's Chuck Prince, who this week moved his chief financial officer (see article)—Mr Dimon knows that the bank is still in a delicate rebuilding phase and that dangers lurk. Can he justify the complexities of his financial supermarket? Can he defend his relatively cautious attitude towards expansion into new markets abroad? He does have plans for a push into international consumer banking, but admits they will take a decade to bear fruit. Another big acquisition might solve this, but it would also bring a new set of integration headaches just as the last lot are receding. “We'd rather do nothing than something dumb,” he says.

Painstaking organic growth and a cautious approach to dealmaking are not exactly what made Mr Dimon famous, but they offer him a route to the next, more difficult phase of JPMorgan Chase's rehabilitation: proving it can thrive where the first colossus he helped to build has struggled. A testing climb lies ahead on the way back up Wall Street's perilous peaks.

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Pharmaceuticals

# Billion dollar pills

Jan 25th 2007 | NEW YORK
From The Economist print edition

AP

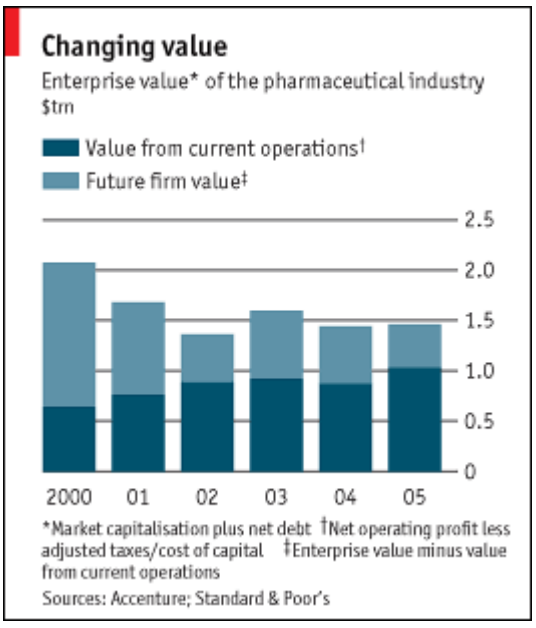
**An overhaul at Pfizer, the biggest and most conservative of drugs firms, shows what ails the industry**

Get article background

"DEATH is optional," says a smiling David Brennan. As an American, he is only half joking about his homeland's demands for a cure for everything. But as chief executive of AstraZeneca, a big British drugs firm, his brimming self-confidence is a reminder of the genuine long-term promise of the pharmaceuticals industry. The world will always need health care—and more and more of it as developed countries grow older and developing nations grow richer. The demand for new drugs can only increase.

Yet the clouds have darkened over Big Pharma. The industry's share prices have performed pitifully and a new report from Accenture, a consultancy, calculates that a whopping $1 trillion of "enterprise value", which measures future profitability, has been wiped out because investors have lost faith in drugmakers' growth prospects (see charts).

Three of the biggest drugs firms have brought in new bosses to help turn things around. One of them is Jeffrey Kindler, the chairman of Pfizer. This week he unveiled a strategic overhaul of a magnitude rarely seen in this business. The world's biggest drugs firm is cutting 10,000 jobs, about a tenth of its global workforce. About a fifth of its sales force in Europe and America will lose their jobs and up to five research centres and several manufacturing sites will close. "There are no longer any sacred cows," promised Mr Kindler.

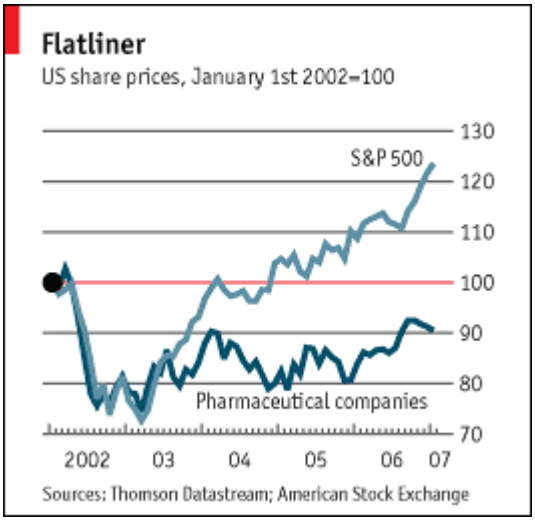



Usually a company's share price rises when it reveals a plan to cut costs. Pfizer's fell slightly. Why? Because Pfizer, once the leading light of the drugs industry, is in serious trouble. Net profits dropped during the fourth quarter of 2006 by 12%, to around $3 billion, compared with the same period a year earlier (after stripping out the sale of Pfizer's consumer-products division to Johnson & Johnson). Its annual sales of some $48 billion are stagnant and may well shrink.

The chief reason is that Lipitor, the anti-cholesterol drug that accounts for nearly $13 billion of Pfizer's revenues and over 40% of its profits, is losing steam. Sales are missing the company's own targets, even before its patent runs out in about four years. Those sales will then collapse as copycat products are churned out by the producers of generic drugs.

Pfizer had bet heavily that Torcetrapib, a novel cholesterol remedy it

was developing, would be the blockbuster to replace Lipitor and help save the company. But in December concerns over safety caused the new drug to be unexpectedly dropped. With it went Pfizer's single best shot at avoiding a financial disaster.




## The winds of change

Now Mr Kindler has to try other ways to revive Pfizer. That means tackling the three big trends confronting the industry. First, profits are getting squeezed as generics firms grow bolder and the big purchasers of drugs try to save money. Second, it is getting harder and costing more to find new treatments. And lastly, the industry is trapped in a marketing and sales arms-race that has diverted resources from research and provoked a public backlash.

This mixture of difficulties explains why the cost of bringing new drugs to market has soared dramatically. Experts differ on how high: estimates range from $500m to $2 billion. Regina Herzlinger, of Harvard Business School, has scrutinised the sums and is certain the era of the billion-dollar new drug has arrived.

The risks have been compounded by vertical integration, reckons Roger Longman of Windhover Information, an industry consultancy. Unlike firms in other businesses, Big Pharma still does most things in-house, from research to manufacturing, sales and distribution. Mr Longman insists that big drugs firms must move towards a “disaggregated” model to focus on a few core areas of competence, such as drug discovery, development or marketing. Many activities can be put out to the growing legion of biotechnology start-up firms, contract research organisations, independent drug-development firms and freelance sales organisations.

The vertically integrated business model was hugely successful for decades and helped to boost the quality of drugs. It still has its defenders. Daniel Vasella, chairman of Novartis, a Swiss drugs giant, insists that talk of a crisis is overblown: “Individual firms may rise and fall, but I believe the innovative power of the sector remains strong.” Stuart Harris, an analyst at HSBC, argues that the difficulties are cyclical and the basic business model is not broken. Others observe that the business has historically enjoyed profit margins of some 20%, double those typically earned by Big Oil.

But look beyond past glories and theoretical future drugs to see the dangers. The petroleum analogy points to the root cause of the problem: uniquely among big industries, notes Joseph Fuller, head of Monitor, a management consultancy, the oil and drugs businesses are “self-liquidating”. Hence Coca-Cola can peddle the same sugary syrup for decades, but an oil company has to keep discovering new fields and a pharmaceuticals company must keep refilling its drugs pipeline.

For a drugs firm renewal is even more pressing, given the abrupt nature of patents' expiration. When patents on blockbusters like Lipitor run out, generic competition ensures that prices collapse quickly—sometimes to a tenth of their former levels. Unless drugs firms continually bring enough new products to market to replace lost revenues they will shrivel and die. “Yes, this is a 'cyclical' downturn,” says AstraZeneca's Mr Brennan. “But a lot of the top 20 drugs firms [of a few years ago] aren't around any more because they couldn't get out of the last cyclical downturn by coming up with key new drugs.”

The drugs industry has always faced this problem, but once it could count on earning fat margins on not just new drugs but also “me too” treatments that were only marginally better than existing therapies. Then governments in Europe, Japan and Canada began demanding big discounts. For a while the industry has found comfort in free-market America, where most big drugs firms earn half or more of their profits. But America's willingness to pay over the odds for new treatments could be coming to an end.

The newly Democratic Congress is talking about cutting drug costs through direct government negotiation with firms. Pfizer's Mr Kindler is convinced America will not embrace price controls, but even so acknowledges that his industry faces pricing constraints. America's private insurance firms and “pharmacy benefit managers”, including those running the government's Medicare drugs scheme, are also looking for savings. So are big employers like General Motors and Wal-Mart.

## The march of generics

The global generic-drugs market is worth nearly $60 billion and well over half its pills and potions are sold in America and Britain, reckons IMS Health, another consultancy. By 2009 a dozen of today's top 35 branded prescription drugs will lose their patent protection. Viren Mehta, an industry expert, estimates the global drugs industry's annual sales to be about $300 billion and that some 30% of it will be attacked by generics in America alone over the next five years.

No wonder generics firms are growing in confidence. Last year, Apotex, an obscure Canadian generics firm, outmanoeuvred Bristol-Myers Squibb and managed to launch a generic version of Plavix, a blood-thinning drug. The resulting financial chaos led to the ousting of Bristol-Myers's boss. The firm is now considered to be a likely takeover target.

Ranbaxy, a big Indian generics firm, gobbled up six competitors last year and is now talking with private-equity firms about a bid for the generics arm of Germany's Merck. Ranbaxy's boss, Malvinder Singh, scoffs that Big Pharma “is struggling to come up with true innovation”. He sees his firm becoming one of the world's top producers of generic drugs within five years. Mr Mehta believes that by 2010 Indian drugs firms could account for six to eight of the world's top 50 drug companies by market share.

The tables are turning, but Big Pharma has not given up the fight. Its armies of lawyers aggressively defend patents, even flimsy ones taken out on minor tweaks to existing treatments. American firms, including Pfizer and Merck, are trying to launch their own “authorised generics” a few months before patents expire to try to blunt the impact of competition. But the effort is largely in vain.

The future of pharmaceutical research may be unfolding in an unfashionable neighbourhood in West London. In a gleaming new building next to Hammersmith Hospital, GSK, a British drugs giant, is working with experts from Imperial College and the hospital on a radical new approach to finding drugs. Using molecular imaging techniques, scientists are studying how humans respond to “micro-doses” of innovative drugs in real time.

Paul Matthews, an Oxford professor and head of GSK's imaging centre, thinks this will lead to a new “iterative, segmented approach to drug discovery” that contrasts with the broad-brush search for “one size fits all” blockbusters. For example, using genetic screening and clinical imaging, his team is trying to work out why the neighbourhood's many South Asians tend to have more heart attacks than its white population—and whether new drugs could be developed to target niche markets more effectively.

With its traditional approach, Big Pharma is not coming up with new drugs fast enough to fill its emptying pipeline. According to CMR International, a consultancy, in most years in the 1990s the industry spent roughly $35 billion-40 billion on research and development and produced 35-40 new drugs. By 2004 spending had swept past $50 billion, but the number of new drugs had fallen below 30. Now annual spending exceeds $60 billion, but the number of new drugs has still to grow.

Mr Harris, the contrarian HSBC analyst, maintains that the situation is not so bad if one measures output in terms of the total profitability of new drugs. Fair enough, but that presumes that the industry can keep coming up with blockbusters. And there is good reason to think that the era of blockbuster drugs is over. As Henri Termeer, chief executive of Genzyme, a big biotechnology firm, argues, “the blockbuster model becomes less important over time as specialised therapies take off.”

So-called “personalised medicine” has long been the Holy Grail of drugs researchers. This points to one explanation for how Big Pharma's research laboratories got into trouble: the shift from conventional chemistry to the “new science” of biotechnology. Most of the dramatic scientific advances in genetics, proteomics and pharmaco-genomics have come not from the industry's cosseted and costly research centres but from academic labs and biotechnology start-ups.

In one sense, the research crunch is not entirely Big Pharma's fault. Patricia Danzon, of the University of Pennsylvania's Wharton Business School, argues that the industry is a victim of its past success, having grown fat on making drugs for easier to tackle illnesses. Monitor's Mr Fuller believes drug labs “are not very different today from what they were in the 1970s”: ie, big, centralised and bureaucratic. Indeed, bosses may have hurt the discovery process with an orgy of dealmaking that has turned Big Pharma into Enormous Pharma. Mr Longman, of Windhover, insists that consolidation “did absolutely nothing”, other than taking out some costs and adding more bureaucracy.

Mr Termeer, Genzyme's boss, goes further and decries the “not invented here” culture at a typical drugs lab. His firm is a start-up. “Dealmaking and alliances came naturally as we had no resources.” Dr Vasella, Novartis's boss, stoutly defends recent mergers, but accepts that big firms must now look outside for inspiration because “we can't do it all ourselves.”

## Desperately seeking drug hunters

The drugs-company bosses are pushing scientists out of their ivory towers. Rather than maintain so-called “centres of excellence” scattered around the world, Pfizer will consolidate operations along a few therapeutic lines (such as cancer, diabetes and so on). Mr Kindler also wants his secretive researchers to open up and work more closely with outsiders. He has put the company's drugs pipeline on the internet for all to scrutinise and declared his intention to pursue outside collaborations and acquisitions keenly.

To this end, Pfizer is following GSK's lead. A few years ago, the British firm broke its research operations into smaller therapeutic groups, with managers given budgetary and decision-making authority. Encouraged by early results and outside praise, the firm is now going further: setting up small units allowed to collaborate with biotech firms—even if the drugs involved compete with those being developed in-house.

Harder still will be breaking the addiction to blockbusters. Bill Ericson, of Mohr Davidow, a Californian venture-capital firm, believes that Big Pharma is so big it simply ignores business opportunities worth less than $1 billion. “We need to be as effective at selling a large number of $500m drugs as we are at selling drugs with multi-billion-dollar sales,” acknowledges Mr Kindler. To the industry's credit, it has come up with some early successes in personalised medicine: Novartis has a new specialised cancer drug that has won praise; a Pfizer drug, Maravirok, is aimed at only a specific type of AIDS sufferer.

Such personalised medicine means huge sales forces are no longer necessary, says Harvard's Ms Herzinger. But can Big Pharma really change how it markets drugs? “If the drugs industry is so proud of being innovation-driven, why is it spending twice as much on overhead and marketing as on research and development?” asks Mr Mehta. Activists have long criticised the industry's defence of patents and unrestricted pricing, decrying huge marketing budgets as wasteful (and, they allege, intended to corrupt doctors). Doctors and patients alike have grown increasingly sceptical. America's Congress is about to hold hearings on whether there should be curbs placed on the industry's advertising.

In America, where firms have been allowed to peddle pills on television, consumer drug advertising has shot up from $1.1 billion in 1997 to perhaps $4.5 billion last year. The reason firms headed down this path is that it seemed to work. AstraZeneca's boss, Mr Brennan, is a former drugs salesman and he acknowledges that companies may have gone too far. Visits by numerous different salesmen to the same doctor have escalated into a costly practice. Pfizer now plans to restrict such visits. GSK's boss, Jean-Pierre Garnier, has vowed to cut marketing expenditure and use the money for drug discovery.

But drugs companies will have to do more than tweak their sales methods. Eric Park, of Ziba, a design consultancy, reckons companies must also think about drug delivery systems and patient-friendly packaging, which could create a new kind of branded intellectual property that might be more defensible than drug patents. For instance, Advair, an asthma product from GSK, comes in an innovative, multi-dose inhaler that is breath-activated and easier to use.

The idea of marketing men having more sway over the men in white coats angers some traditionalists. Novartis's Dr Vasella calls the notion “stupid”. But it is applauded by Johnson & Johnson, the only drugs firm that has for decades been nimble, decentralised and consistently more innovative than its rivals. Paul Stoffels, its head of research, insists that “value for the patient” is the key to recovering the cost of new drugs.

Uli Hacksell, the head of America's Acadia Pharmaceuticals, agrees. He says the future belongs not to those who develop science for the sake of it, but market-minded “drug hunters” who pick and develop drugs that patients want and need.

So, will Pfizer's new strategy work? Mr Kindler says the object of his reforms is to inject “a sense of urgency” into his firm's researchers. Drugs are an inherently risky business, but he wants to reduce the risk of failing late in the game (as with Torcetrapib) by conducting lots of experiments and either abandoning unlikely candidates or scaling up quickly—a practice that General Electric cultivates as “fast failing”.

Having come from outside the drugs industry may help. Mr Kindler joined Pfizer in 2002 as general counsel after holding a senior legal post at McDonald's. He deserves credit for grasping the industry's problems quickly and then trying to tackle them. His reforms are well thought out and offer clear benchmarks for outsiders to measure progress. Analysts at Goldman Sachs, an investment bank, have praised the new strategy for showing “a path through Pfizer's black hole”.

But the biggest obstacle will be the industry's corporate culture. “You can't transform overnight into a decentralised organisation,” Johnson & Johnson's Dr Stoffels observes. Mr Kindler acknowledges this, but says his experiences outside the firm showed that people like working without layers of bureaucracy. He hopes to win converts as Pfizer finds success, but is under no illusion about the difficulty of the task. As he put it this week: “We're changing the tyres on a moving vehicle.” It is a feat few others would attempt.

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The euro area's economy

# Beggar thy neighbour

Jan 25th 2007
From The Economist print edition

Satoshi Kambayashi

**Germany's economy has regained its lost competitiveness, but it may come at the expense of Spain, where wages are rising fast**

THE economy of the euro area is basking in a rare period of optimism. Growth forecasts ended the year higher than at the start of the year, the first time this has happened since 2000. The growth differential with America's economy has narrowed and is expected to contract further this year. But in an economy that comprises 13 diverse nations, such blessings are rarely unmixed. A particular concern is that the recent resurgence at the euro zone's core could portend a protracted slump at its periphery.

Germany has been the source of much of the recent good news in Europe. For so long a laggard in the euro area, its economy is now growing faster than the regional average. Unemployment, though still high, has dropped sharply in the last two years. The latest survey from Ifo, a Munich economic-research institute, shows that business confidence remains close to a 15-year high. Exports and business investment are doing well. Understandable doubts remain about the durability of Germany's revival: consumer spending has so far failed to take off convincingly.

Yet arguably the German economy is on a sounder footing than at any time since reunification (see article). Germany's recovery in cost competitiveness has been crucial to its reviving fortunes. Declining real wages and a modest upswing in productivity have together produced a sustained drop in unit labour costs. Lower wage costs, in turn, have helped boost exports and jobs.

Hope for a lasting German recovery is mixed with concern about the outlook for countries where wage discipline has been less strict. In Italy and Portugal, for example, a combination of strong wage increases and weak productivity growth has undermined cost competitiveness.

The same cocktail of higher wages and sluggish productivity clouds the outlook for one of the fastest-growing European economies: Spain. In the last decade, its economy has expanded by an average of 3.7% a year, nearly twice the rate for the whole euro zone. Spanish demand has been driven by housing and credit booms that are vulnerable to higher interest rates. But high labour costs may in the end prove to be Spain's undoing. In a report published this week the OECD, while applauding Spain's “remarkable” performance, noted that its relatively high inflation had undermined its competitiveness.

Olivier Blanchard, of the Massachusetts Institute of Technology, sees Spain as a plausible next victim of what he calls “the rotating slumps under the euro”. In his view, the euro area is characterised by a succession of booms and busts, each in a single country. A typical stop-go cycle starts with a localised increase in demand, which in turn leads to higher wages, lost competitiveness and finally to a protracted downturn. Since short-term interest rates in the euro area are not tailored to individual countries' cycles, monetary policy can attenuate neither boom nor bust.

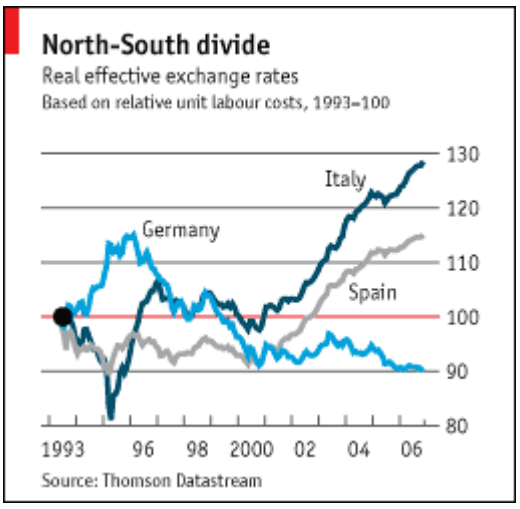
In Mr Blanchard's model, the slump migrates across the currency zone according to shifts in relative wage costs. A

long period of above-average wage growth that goes unmatched by productivity gains will eventually leave a country at a significant cost disadvantage.

Germany's recent history shows how hard it is for a member of the euro club to recover from a cost-induced slump. Devaluation might have been an obvious remedy, but can only be achieved by leaving the currency union. The only other solution is to drive down wage costs relative to those in competing countries. This option is also costly: Germans have paid the price in terms of high unemployment and stunted growth. Cost reduction is also painfully slow. Workers are resistant to pay cuts, so the necessary reduction in real wages relies on a long period of below-average inflation. This kind of wage discipline has underpinned Germany's revival.

An increase in productivity growth, a more recent trend, has given German competitiveness a further boost. Output per hour in Germany rose by 2% last year, according to a report published on January 23rd by the Conference Board, a business organisation. Such vigour has put further distance between Germany and its trading partners to the south. Spain's performance is particularly dismal. Output per hour there fell by 0.5% last year, continuing a negative trend that dates back to the mid-1990s.

For Mr Blanchard, Spain is at a potentially dangerous point in the relative-cost cycle. Wages are still rising at a rate roughly twice the euro zone's average and well ahead of productivity growth. Spain's real exchange rate is up by nearly a quarter since 2000 (see chart). But so far the economy shows few symptoms of ill health. GDP probably grew by 3.6% last year and forecasts for this year suggest only a modest slowdown.




One clear sign of something amiss is Spain's current-account deficit, which widened to 8.8% of GDP last year, estimates the OECD. Such imbalances can reflect shifts in competitiveness and warn of trouble ahead—especially, perhaps, in a currency union where the costs of wage adjustment are high. Within America, by contrast, cost imbalances are resolved less painfully, because workers are willing to move from depressed states to where jobs are more plentiful.

Portugal's ballooning trade deficit in the late 1990s was a symptom of declining competitiveness and the economy has yet to recover from the subsequent bust. Spain now has the second-largest current-account deficit in the world in dollar terms and looks dangerously overheated. Germany's resurgence has set a challenge for the euro zone's southern members. Without the option of devaluation, their medium-term outlook looks less than rosy.

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**Buttonwood**

# Can't pay? Won't pay

Jan 25th 2007
From The Economist print edition

**In emerging markets, the bond-market dogs lose their bite**

"WHEN I come back, I want to come back as the bond market, because then you can intimidate everybody," said James Carville, Bill Clinton's political adviser, in the 1990s. But the "bond-market vigilantes" are not always as menacing as they once were.

Emerging-market governments now seem able to thumb their noses at investors. The latest is Ecuador, where the economy ministry has described some parts of its debt as "illegitimate" and hinted at repaying just 40% of the outstanding total.

It is not that Ecuador lacks resources. Investors generally agree that any default would be the result of unwillingness, rather than inability, to pay. Standard & Poor's, a rating agency, said Ecuador had "one of the weakest payment cultures" of the 113 countries it monitors.

Along with Bolivia and Venezuela, Ecuador is part of an "axis of Marxists" that seems to take a delight in aggravating the international financial community and America in particular. The surge in oil prices this decade has financed this defiance. And while Ecuador is no Saudi Arabia, it may feel it is able to rely on its near neighbour, "Uncle Hugo" Chávez, to provide it with some excess cash.

The commodity boom has allowed others to strike a tougher attitude towards international capital than before, most notably Russia, which has mistreated foreign investors in its oil sector. It has also helped that yield-hungry investors have been pouring money into emerging markets. With returns on American Treasury bonds and high-grade debt too low to meet the needs of pension funds and endowments, they have to take more risks.

According to the Institute of International Finance (IIF), an international banking club, some $502 billion of private capital flowed into emerging markets last year, only slightly down on the $509 billion in 2005. The IIF predicts $469 billion of capital flows this year, which would be the third-highest level on record. Those flows reflect the general perception that emerging-market economies have improved substantially since the Asian crisis of 1997-98. Many developing countries are running current-account surpluses, in order to be less dependent on foreign capital than they were a decade ago. By doing so, they have proved the old rule that bankers are willing to lend money only to people who do not need it.

An element of moral hazard may have entered the equation. Argentina imposed a substantial default on its creditors five years ago. Its debt now yields a little above two percentage points more than American Treasury bonds; hardly a sign that it is a financial pariah. Investors have been happy to buy its inflation-linked bonds, on the expectation that consumer prices will rise sharply.

This may reflect a change among investors. When the Latin American debt crisis broke in the 1980s, much of the debt was in the hands of Western banks. Given the importance of these banks to the financial system, there was a lot of political interest in ensuring that the loans were restructured. Now that debt is widely dispersed among hedge funds, pension funds and the rest, it may be harder for creditors to join ranks. And while one hedge fund may give up on Ecuador, another may see the crisis as a buying opportunity.

It would be wrong to say that Ecuador has not been punished for its defiance. Its cost of finance has definitely increased. Ecuador's bonds were trading close to their face value in the spring of last year, according to PIMCO, a fund-management group; now the benchmark 2030 bond trades at only 70 cents to the dollar. Its credit-default swaps, which insure the buyer against non-payment, traded as low as 270 basis points (hundredths of a percentage point) in August; they are now at 1,350 basis points.

Emerging-market investors also point out that Ecuador is a small country, in terms of both population and importance to financial markets. They argue it would be wrong to see it as a harbinger. So far there has been little sign of a "contagion effect" in other markets.

However, Richard Bernstein of Merrill Lynch likens risk to popcorn in a microwave. One kernel pops, but it seems to be an isolated event. Then another goes and another, until the entire bag is active. Ecuador is only the latest pop,

following Thailand's botched capital controls, Venezuela's proposed nationalisations and sharp falls in commodity prices.

At some point, the credit cycle will turn and some emerging markets may regret “dissing” international investors when the going was good. As Gene Frieda, head of emerging-markets research at Royal Bank of Scotland, says: “The bargaining power of some countries is diminishing with every tick lower of the oil price.” The vigilantes may yet have their revenge.

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World trade

# Sharing bodily warmth

Jan 25th 2007
From The Economist print edition

**The Europeans and Americans look serious about a farm-trade deal**

THIS week, a potent mix of glitterati and digerati, plutocrats and aristocrats have been mingling in the Swiss ski resort of Davos, which hosts the annual World Economic Forum. Joining them on January 27th will be some 30 trade ministers, looking to revive the Doha round of trade talks. These negotiations began more than five years ago, with the aim of freeing trade in agriculture, manufacturing and services. They have struggled since then to get off the nursery slopes. Last July they almost wiped out once and for all.

But the mood of the round has lifted in recent weeks, and not just at the prospect of mountain air. The European Union and America seem newly serious about reaching a compromise on farm trade. If true, this would then put pressure on India and Brazil to do their bit. The only dampener was George Bush's state-of-the-union address this week, which mentioned trade only once, Doha not at all, and seemed sweetly oblivious to the impending demise of his authority to sign trade deals, free of congressional nit-picking.

The optimism turns on two magic numbers: 17 and 54. If the Americans cap their trade-distorting farm subsidies to $17 billion a year, the Europeans might try to cut their agricultural tariffs by 54% or thereabouts. Neither number has appeared in a formal offer, and an American spokesman this week described them as “completely false”. But both have been around for so long, if only in the media, that it is hard to see a different pair taking their place.

Sadly, the numbers on their own do not reveal all that much. Indeed, Susan Schwab, America's top trade negotiator, is suspicious about any proposal that can be put on a “bumper sticker”. Such stickers are meant to be read from a distance. And both numbers begin to blur if you get too close. For example, a $17 billion limit on subsidies is about $5 billion less than America's best formal offer. But a chunk of this $5 billion could not have been spent anyway, because the rules say it must be spread thinly across lots of different products. This does not suit America, which likes to back a few crops (corn, wheat, rice, cotton and soyabeans) heavily.

The EU's fine print takes even more deciphering. A 54% average tariff cut, were it to agree to one, sounds ambitious, and is much higher than its formal offer, which amounted to a 39% cut. But “average cuts” are easy to finesse. For example, a country with two tariffs, one at 100% and another at just 1%, can deliver a 50% average cut by removing the trivial tariff entirely (a 100% cut), and leaving the other untouched.

The Europeans also want to spare some of their more “sensitive” products from a full tariff trim. Controversy still reigns over how many such products America will accept, and how close the shave must be. In trying to resolve this disagreement, the dry abstractions of past rounds of negotiations have given way to much meatier exchanges: America wants to know exactly how many tonnes of beef, pork, poultry, and so on it can expect to sell in the EU as a result of a deal.

It was over 20°C (68°F) in Geneva last July when the Doha round went into hibernation. Curious that in the subzero temperatures of Davos, the round's pulse may be quickening.

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Hedge funds

# Lifting the lid

Jan 25th 2007
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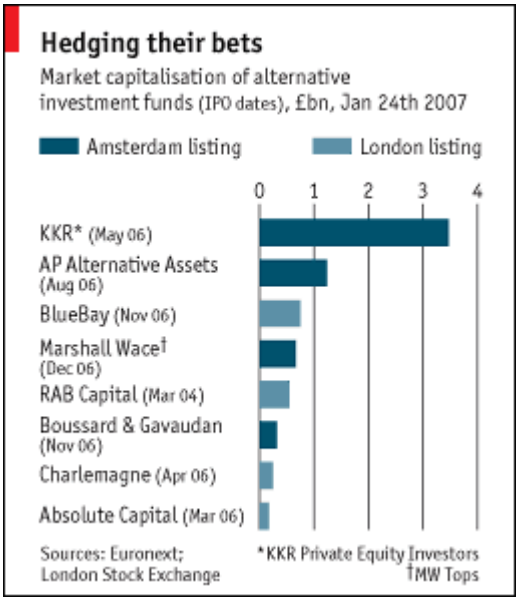
**A battle is on for the spoils as secretive funds go public**

BACK in the 17th and 18th centuries, Britain and the Netherlands fought for control of trade routes across the high seas. Today a more genteel contest is taking place across the English Channel, but the potential booty is also lucrative. Stock exchanges are vying to attract public listings from alternative investment funds, including private-equity and hedge funds. Hitherto these were accessible mostly to very rich individuals and institutions. Now anyone can take a punt.

The Euronext exchange in Amsterdam, the Dutch arm of a pan-European stock-market operator, stole the march on London last year when it listed a $5.5 billion fund run by Kohlberg Kravis Roberts (KKR), a mighty private-equity firm. More recently Marshall Wace, a London hedge-fund manager, also turned to Amsterdam to float its MW Tops fund, raising €1.5 billion ($2 billion) in the process.

Until now, the most eye-catching listings in London have been those of fund-management firms, such as Man Group, a hedge-fund conglomerate which went public in 1994. Its share price has risen 18-fold since flotation.

Now individual funds, rather than management firms, are making most of the running (see chart). Belatedly the financial regulators in Britain, who like to think of London as Europe's most innovative financial capital, have taken notice.




The regulators “feel they're missing a trick,” says an investment banker who was involved with the Marshall Wace deal in Amsterdam. He noted that much of Amsterdam's appeal lay in less strict listing rules, including lower levels of disclosure.

In response, Britain's Financial Services Authority (FSA) has promised to allow the listing of overseas, single-strategy funds on the London Stock Exchange (LSE). Until now, they had been restricted to the LSE's junior Alternative Investment Market, because of rules on the main market against listing companies that sold short or did not have diversified investments.

The reforms appear to be paying off. This month Brevan Howard, a hedge-fund manager, announced plans to float an investment fund on the LSE. The FSA is considering easing the rules for onshore firms as well.

Several factors are driving the flurry of listings. Firms are keen to raise “permanent capital”, providing them with a big pool of funds upfront that they can invest without fear of redemptions; and company founders want to put money in the bank while fund valuations look healthy.

For investors such as pension funds, buying a stake in a listed entity may appeal if their internal rules stop them investing directly in private-equity or hedge funds. Listed funds can also help investors avoid the risks of long lock-up periods.

Recent trading results have been mixed, yet the activity in Europe is being watched with envy by investors in America, where individual funds are unable to float. For now, Americans are only able to satisfy themselves with the initial public offerings of fund-management firms, such as Fortress Investment Group, which is reportedly aiming to raise around $635m by selling a small portion of its voting shares.

Citadel, another big hedge fund, opted to raise capital recently via the bond markets. But given the levels of disclosure required in America, offering tantalising detail about a firm's investment strategy and returns, it is no wonder other management companies are moving cautiously.

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Russian banks

# Bust to boom

Jan 25th 2007 | MOSCOW
From The Economist print edition

**High crimes and misdemeanours in Russian banking–but opportunities too**

CONTRACT killing, like other services, is subject to market rules: the lower the perceived risk, the lower the price. The risk of getting caught for buying murder in Russia is generally very low; even so, the alleged customer in the killing last September of Andrei Kozlov, deputy governor of Russia's central bank, apparently miscalculated. Then, Russia's general prosecutor said solving what was the highest-profile hit of Vladimir Putin's presidency was “a matter of honour”—and solve it the authorities now say they have, fingering a group of amateurish Ukrainian hitmen and middlemen, who were supposedly paid just $10,000 altogether.

Alexei Frenkel, who was last week charged with organising the murder, has had a banking career that might politely be described as unfortunate. He was involved with the aptly named Sodbiznesbank, whose licence was revoked by Mr Kozlov in 2004, for offences that included processing kidnap-ransom money—to the ire of some depositors who lost their savings. The former head of Sodbiznesbank was subsequently murdered, with his wife and daughter. Mr Frenkel's VIP bank lost its licence last June, three months before Mr Kozlov was killed; it had earlier been excluded from the state deposit-insurance system. According to his friends, Mr Kozlov complained of pressure from high-ranking officers in the security services in relation to these cases.

AP

**Sod's law for Alexei Frenkel**

One effect of Mr Kozlov's death might be to drive up the price of assassination. The impact of his campaign to clean up the Augean murk of Russian banks has been to make them more attractive to investors than might ever have seemed possible a few years ago. Licence withdrawals (125 have been pulled in the last three years, according to the central bank, mostly for money-laundering), and the introduction of the long-mooted deposit-insurance scheme, which guarantees up to 190,000 roubles ($7,200), were Mr Kozlov's two most visible tools. With them came measures making it harder for banks to cook their books, and more stringent capital requirements that led to a string of mergers and closures. Meanwhile, the economy grew and public finances stabilised.

At the last count there were still 1,143 banks in Russia; but many are so-called “pocket” banks with only one or two customers. In fact, says Frank Mosier of Kazimir Partners, a Moscow asset-management firm that is keen on banks, Russia is “severely underbanked.” Herbert Stepic, boss of Austria's Raiffeisen International Bank, describes Russia as a “huge market, at a very early stage of transformation.” Many Russians are only now beginning to trust banks: retail deposits are low, as a share of GDP, even among emerging economies. The volume of retail lending, meanwhile, roughly doubled last year. Real interest rates as high as 50% on many consumer loans, says Richard Hainsworth of RusRating, mean big profits despite the not infrequent defaults. The mortgage market is still young: a startling aspect of Moscow's wild property-price boom is how little it is driven by mortgages.

So even given the domination of state-controlled Sberbank—to which customers fled after the 1998 default and devaluation, and which boasts more than half of all retail deposits, over a quarter of all banking assets and access to cheaper capital than private banks—there is enough business to go round. As one foreign director of a private Russian bank puts it, the others “just have to work a bit harder for deposits”. Both portfolio investors and Western banks are noticing. Between its own subsidiary and Impexbank, which it bought last year, Raiffeisen now has 250 branches in Russia. New rules have made it easier for foreigners to buy stakes in Russian banks; a clutch of share offerings (including one by Sberbank) are imminent.

If Mr Kozlov's clean-up continues, the biggest obstacle may be over-regulation. Mr Frenkel (who protests his innocence) indirectly pointed out one aspect of that problem in a letter published last week on the website of *Kommersant*, a newspaper. While Russia's is a cash-driven economy, there are rules making it hard to withdraw large quantities of cash from a bank. Mr Frenkel alleged that money laundering is a trivial scam compared with money dirtying, in which dodgy banks illicitly offer access to cash that can be used, for, say, bribing government officials. He also alleged that the central bank colludes in this scam, and applies its regulations unfairly.

The bank dismissed his letter as a diversionary rant. Perhaps; but “money dirtying” is indeed a common service—and along with the opportunities, there are still risks and rotten apples in Russia's banks.

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China's reserves

# A money machine

Jan 25th 2007 | HONG KONG
From The Economist print edition

**The People's Bank of China is the world's most profitable bank**

CHINA wants to boost the return that it earns on its $1 trillion-plus stash of foreign-exchange reserves. The prime minister, Wen Jiabao, said on January 20th that the country would explore new ways of investing the money, which is held mostly in liquid American government securities. But his statement was vague. It could simply imply broadening the composition of assets held by the People's Bank of China (PBOC) to include higher yielding equities and commodities; or, more dramatically, part of the reserves could be transferred to a separate state investment agency which would maximise returns like a fund manager.

Even as things stand, the PBOC is earning a handsome profit. According to Stephen Green, an economist at Standard Chartered, it made a profit of $29 billion last year—more than any of the world's commercial banks.

Much attention has been given to the large losses that the PBOC could suffer if the yuan rose sharply against the dollar (in which around 70% of reserves are held). Last year, the loss on its dollar reserves, as a result of a modest rise in the yuan, was partially offset by a gain on its euro-denominated reserves as the euro strengthened. Mr Green estimates that, overall, the bank suffered a balance-sheet loss of 26 billion yuan ($3.3 billion) because of currency movements.

However, this loss was dwarfed by the PBOC's net interest income. It earned an estimated 343 billion yuan on its foreign reserves last year. On the other side of the ledger it had to pay interest of 90 billion yuan on banks' reserves held at the central bank and on bills it issued to absorb excessive liquidity (largely caused by the surge in foreign-exchange reserves). Putting this with the foreign-exchange loss gives a total profit for 2006 of 227 billion yuan, or $29 billion. Citigroup and Bank of America, the world's most profitable banks, each made net profits of just over $21 billion in 2006.

The PBOC's earnings are vast partly because the interest rate it pays on its own bills is much lower than American interest rates, so it makes money from mopping up the liquidity created by an increase in reserves. This means that as long as American rates remain above those in China, today's exchange-rate regime—of buying dollars to hold down the yuan—will remain profitable.

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Nigerian bonds

# No laughing matter

Jan 25th 2007 | LAGOS
From The Economist print edition

**Africa's top oil producer is welcomed back to the fold with a Eurobond issue**

IF YOU had told an international banker a few years ago that Nigeria was preparing to issue bonds on the global market, he may well have laughed in your face. The banking sector was weak and fragmented and Nigeria's government was bogged down in fruitless negotiations over the billions of dollars of debt racked up during years of corrupt military rule.

But on January 22nd one of the country's main commercial banks issued a five-year Eurobond worth $350m at an interest rate of over 8%, and demand was high. It was the first time any Nigerian institution, private or public, had approached the international capital markets since the early 1990s. Meanwhile, many other developing countries (even those without petrodollars) have received the red-carpet treatment from investors.

The issue by Guaranty Trust Bank should encourage others to follow, according to Mansur Muhtar, Nigeria's top debt-management official. The government is itself looking seriously at entering the Eurobond market this year, once important capital-market guidelines have been implemented, he says. The country should be able to take advantage of its lower debt profile after it finally succeeded in negotiating an $18 billion write-down from Paris Club lenders in return for a $12 billion settlement last year and announced plans to repay—through a complicated manoeuvre—its remaining London Club debt.

Technically speaking there is no reason why Nigeria should not succeed. The banking system has had radical new capital-requirement rules since 2004, which have produced a degree of consolidation. Many analysts say that despite lingering concerns about weak regulation, bank reforms are fairly well entrenched.

Mr Muhtar says that Nigeria hopes to win better debt ratings from Standard & Poor's and Fitch. Both credit-rating agencies still place it a few notches below investment grade. The government is keen to place its own Eurobond so that it can offer investors a sovereign benchmark, against which other issuers are measured. It also wants to use debt to finance the country's pressing infrastructure needs without having to dip into its international reserves, valued at more than $40 billion.

Despite the economy's progress, politics are likely to be the determining factor in Nigeria. It took the government of President Olusegun Obasanjo almost two terms in office to bring Nigeria's capital-market reforms this far. With national elections in April that are due to be hotly contested and Mr Obasanjo fully aware that politics could upset his economic reforms, international investors still have plenty to be nervous about. “We are keeping our fingers crossed,” says Mr Muhtar.

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**Citigroup**

# Fat-fighters in a sweat

Jan 25th 2007 | NEW YORK
From The Economist print edition

**If only fish tanks and fireplaces were the worst of the bank's problems**

BIG is beautiful, bloat not. Citigroup, the world's largest bank, has been having trouble convincing investors that its bulk is more muscle than fat. This will be harder still after the ejection of Todd Thomson, the free-spending head of its wealth-management group.

While Chuck Prince, Citi's chief executive, was explaining to sceptical investors why the bank's expenses have continued to grow faster than its revenues, Mr Thomson was, it emerged this week, shuttling Maria Bartiromo, a television journalist known as the “Money Honey” on Wall Street, around in Citi's corporate jet. He was also kitting out his office with a working fireplace and a tank full of tropical fish.

Embarrassing as the Thomson affair is, Citi's real problems lie elsewhere—as Mr Prince knows. In December he elevated Robert Druskin to the role of chief operating officer with the job of making big savings. These are likely to come from such things as crunching together different departments' staff and processing systems, rather than curbing executive luxuries.

This surgery is needed because Mr Prince's predecessor, Sandy Weill, focused more on creating a colossus through mergers than on how its various parts should work together. Under Mr Prince, Citi is belatedly trying to make the conglomerate model work. Success will mean the difference between a brawny giant and a blubbery one.

Coping better with a testing interest-rate environment would also help. Mr Thomson's replacement, Sallie Krawcheck, has struggled as the bank's finance chief to make progress against financial headwinds—not altogether surprisingly, given that she was a novice in the role. In the last quarter the margin between Citi's funding costs and lending rates fell by much more than those of its main competitors. Part of the problem is that its branch network is small—arch-rival Bank of America has over six times more—giving it less access to the cheapest funding, customer deposits.

With Citi's share-price growth lagging that of its main rivals, Mr Prince is impatient to turn things round. Insiders say Mr Druskin has been told to have his cost-cutting plan ready in a couple of months—sooner than Mr Prince has said in public. Should this fail to work, pressure for a break-up, which has emerged in recent months, will intensify.

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Economics focus

# Reading the tea leaves

Jan 25th 2007
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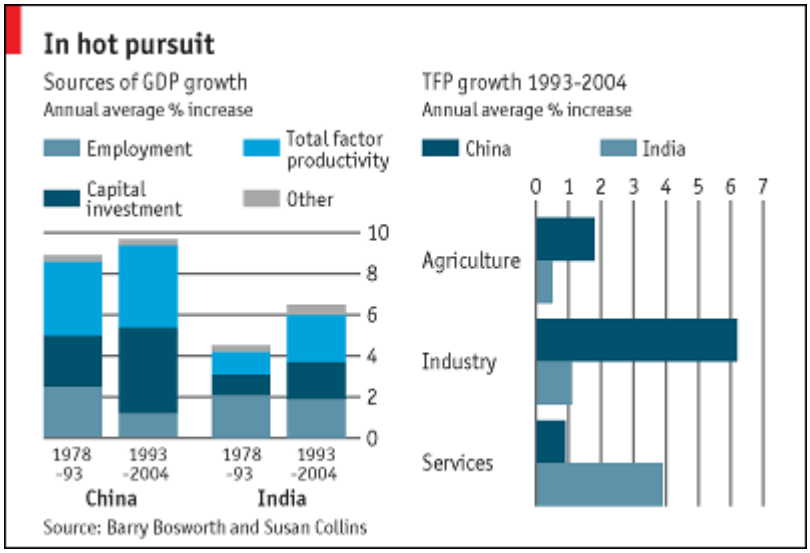
**Comparison with China shows India's boom may be less impressive than it seems**

INDIA has been swept by optimism that its economy can do as well as China's. A recent article in the *Economic Times* claimed that the growth in India's total factor productivity (TFP), the efficiency with which inputs of both labour and capital are used, had accelerated, whereas China's had slowed owing to wasteful investment. As a result, the article boasted, rising productivity—the main driver of long-run economic growth—is now running neck and neck in the two economies. Close inspection of the numbers, however, reveals that China remains well ahead.




Both India and China have large populations, low incomes and rapidly rising GDP, yet the composition of their growth has been quite different. A recent paper* by Barry Bosworth and Susan Collins, of the Brookings Institution in Washington, DC, explores the sources of expansion in both countries, breaking down total GDP growth into increases in inputs of labour and capital, and gains in TFP. In the period 1993-2004, China's GDP grew by an average of 9.7% a year, India's by 6.5%. Employment increased faster in India than in China, but this was more than offset by a much slower rise in output per worker: only 4.6% a year, compared with 8.5% in China. This reflected both stronger capital investment in China and much faster growth in TFP, which increased at an annual rate of 4% against India's 2.3% (see left-hand chart). Contrary to the popular claim that China's TFP growth has slowed, the authors find that it has accelerated from a pace of 3.6% in 1978-93.

These figures challenge the conventional wisdom that China's growth is more dependent than India's on investment than on efficiency gains. Over the past decade TFP has in fact accounted for a bigger slice of GDP growth in China than in India. Thanks to economic reforms, India's TFP growth has improved from its paltry 0.2% a year in the 1960s and 1970s before the economy was opened up, but it is still much slower than in China. Worryingly, the figures also show that India's TFP grew more slowly in 1999-2004 than in 1993-99. Since 2004, TFP growth has probably spurted (the figures are not yet available), but this may reflect a cyclical boom.

The relative performance of the two countries varies by sector (see right-hand chart). In agriculture, China has enjoyed much faster productivity growth. Indeed, India's TFP growth in farming has fallen since 1993, dragging down overall TFP growth because agriculture still employs a large share of the population. In 1978 it accounted for 71% of workers in both India and China. Now the respective figures are 57% and 47%. India therefore has huge scope to sustain rapid growth by shifting workers from agriculture to more productive jobs in industry and services.

According to conventional wisdom, Chinese workers have shifted largely from farming to factories, whereas India's growth has been driven largely by services, from call centres to writing software. In fact, jobs in services have expanded more strongly in China than in India. Since 1993 the rate of increase of China's service-sector jobs has been four times that in industrial jobs and has exceeded that in India. China's real output of services has not only grown almost as fast as its industrial output, but also faster than India's services.

Indeed, a larger proportion of workers is employed in services in China than in India. However, the share of services in GDP is much smaller in China (33%, against India's 50%), because Chinese industry is so much more productive. India's industrial workforce, including small firms in the informal sector, has been growing much faster than China's—by 3.6% a year since 1993, against only 1.2% in China—but its industrial output has lagged behind China's because its productivity has grown more slowly. This is due in part to rigid labour laws, which prevent the most efficient use of workers, and to a lack of modern infrastructure. Since 1993, China's industrial TFP has grown by an annual average of 6.2% compared with a measly 1.1% in India—barely any faster than before the economic reforms of the early 1990s.

## Suspiciously quick

A curious finding is that although India has trailed far behind China in TFP growth in agriculture and industry, in services India has done much better: on average, its productivity has grown by 3.9% a year since 1993, compared with only 0.9% in China. These figures are startling. They give India perhaps the fastest recorded pace of TFP growth in services of any country in the world. But how reliable are the data?

An earlier paper† by Mr Bosworth, Ms Collins and Arvind Virmani, an adviser at India's Planning Commission, suggests that such strong TFP growth in services is suspicious. One might expect rapid productivity gains in finance, telecoms and business services, but they account for only 28% of India's total services output. Indeed, traditional services (retailing, transport, public and personal services) have contributed more to reported output growth since 1993 than modern varieties. This makes India odd: most countries have not seen rapid TFP growth in traditional services and productivity growth has generally been slower in services than in industry.

The authors tentatively suggest that the growth in services output (and hence TFP) may be overstated in India. They surmise that inflation in services is being underestimated, causing real growth to be overstated. If so, then India's overall GDP growth lags further behind China than the official figures show.

In any case, the study clearly shows that the main difference in the growth performance of China and India is not the strength of India's service sector, but the weakness of its manufacturing. Until India boosts its industrial productivity, which will require bolder reforms, it is premature to boast that its economic performance is as good as China's.

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* "Accounting for Growth: Comparing China and India"

† "Sources of Growth in the Indian Economy"

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Gravity

# Weighing the universe

Jan 25th 2007
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**How scientists are trying to find where Einstein went wrong**

Stephen Jeffrey

FAMILIAR as it may seem, gravity remains a mystery to modern physics. Despite several decades of trying, scientists have failed to fit Einstein's general theory of relativity, which describes how gravity holds big objects together, with the quantum mechanics he pioneered, which describes the tiny fundamental particles of which matter consists and the forces by which they interact. Recent discoveries have highlighted further problems.

Many physicists are therefore entertaining the idea that Einstein's ideas about gravity must be wrong or at least incomplete. Showing exactly how and where the great man erred is the task of the scientists who gathered at the “Rethinking Gravity” conference at the University of Arizona in Tucson this week.

One way to test general relativity is to examine ever more closely the assumptions on which it rests, such as the equivalence principle: that gravity accelerates all objects at the same rate, regardless of their mass or composition. This principle was famously demonstrated by Galileo Galilei some 400 years ago when he simultaneously dropped cannon and musket balls, and balls made of gold, silver and wood, from the Tower of Pisa. Each appeared to hit the ground at the same time.

A more precise test requires a taller tower. In effect, researchers are sending balls all the way to the moon and back. Tom Murphy, of the University of California, San Diego, and his colleagues fire laser beams from the deserts of New Mexico at reflectors placed on the moon by American and Russian spacecraft in the late 1960s and early 1970s. They use a telescope to capture the small fraction of the light that returns. Because the speed of light is known, they can calculate the distance between the Earth and the moon from the time taken for light to traverse it.

## Great minds think alike

According to general relativity, because the Earth and the moon orbit the sun, they should “fall” towards it at the same rate, in the same way as Galileo's balls fell to the ground. By repeatedly measuring the distance between them, scientists can calculate the orbits of the Earth and the moon around the sun relative to each other.

If the equivalence principle were violated, the moon's orbit around the Earth would appear skewed, either towards or away from the sun. So far, Dr Murphy told the conference, these experiments have merely confirmed the equivalence principle to one part in 10 trillion. Dr Murphy and his colleagues hope that even more precise measurements could ultimately show general relativity to be only approximately correct. This would usher in a new revolution in physics.

Another aspect of Einstein's work to be tested is the existence of gravitational waves. General relativity views gravity not as a force but as a consequence of the curved geometry of space and time. Space-time, as it is known, has four dimensions: the three familiar spatial ones of length, breadth and height, and time. It can be distorted or curved by massive objects, such as stars. Temporary ripples in space-time—gravitational waves—are caused when such objects accelerate. They are weak, but if the accelerating object has enough mass it should be possible to spot them.

Scientists at several new ground-based observatories are hoping to do just that. The most sensitive of these, the Laser Interferometer Gravitational Wave Observatory, is based on two sites in Livingston, Louisiana, and Hanford, Washington. So far, it has seen nothing worthy of mention—but it has been running at both sites for less than a year. Even so, the American space agency, NASA, and the European Space Agency are collaborating on plans for the next step: the Laser Interferometer Space Antenna, which would be far more sensitive to gravitational waves. If they were detected, another of Einstein's predictions could be confirmed.

Further experiments are testing gravity in space. NASA has a spacecraft called Gravity Probe B that is examining a subtlety known as the Lense-Thirring effect that produces a small force as space-time is twisted by a spinning mass, such as a rotating planet. The probe orbits the Earth's poles; the Lense-Thirring effect is predicted to shift, little by little, the point on the equator crossed by the spacecraft. This may take several months to become noticeable; the results are due in the spring.

What is happening to space-time around a rotating object that is much more massive than the Earth—a black hole, say—should be more obvious. Some elegant and profound mathematics says that black holes can be described using just two numbers: their mass and their spin. Now astronomers want to know whether the maths is correct. Avery Broderick, of Harvard University, told the conference that studies of the supermassive black hole at the centre of the galaxy could be detailed enough to decide this. He thinks it may be possible to measure the spin using an intercontinental network of existing radio telescopes over the next five years.

Data from existing X-ray satellites that show images of gas whizzing about black holes at close to the speed of light hint that time slows as the gas plunges into the zone from which escape is impossible. NASA has proposed a mission, called Constellation-X, that would build on this work by providing detailed pictures of what happens to space-time at the edges of these gravitational chasms.

Then there are plans to examine the gravitational wave background, which would show what the universe looked like a fraction of a second after the Big Bang. The earliest images that cosmologists have found come from a couple of hundred thousand years after the birth of the universe. The pictures show that it was already lumpy; the denser areas went on to become galaxies, stars and planets. Knowing how this came about by looking even further back would allow cosmologists to decide which of their theories of the early universe were correct. This, in turn, would tell them more about the nature of gravity. Will Kinney, of Buffalo University, told the conference of future plans to detect the extremely faint gravitational waves still ringing in the heavens from the Big Bang.

More than 100 years after Einstein began the most recent revolution in physics, his ideas remain mostly correct. But physicists are convinced they are incomplete, and are determined to discover precisely where they fail.

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Artificial intelligence

# Winning ways

Jan 25th 2007
From The Economist print edition

**Computers have started to outperform humans in games they used to lose**

RESEARCHERS in the field of artificial intelligence have long been intrigued by games, and not just as a way of avoiding work. Games provide an ideal setting to explore important elements of the design of cleverer machines, such as pattern recognition, learning and planning. They also hold out the tantalising possibility of fame and fortune should the program ever clobber a human champion.

Ever since the stunning victory of Deep Blue, a program running on an IBM supercomputer, over Gary Kasparov, then world chess champion, in 1997, it has been clear that computers would dominate that particular game. Today, though, they are pressing the attack on every front. They are the undisputed champions in draughts and Othello. They are generally stronger in backgammon. They are steadily gaining ground in Scrabble, poker and bridge. And they are even doing pretty well at crossword puzzles. There is one game, however, where humans still reign supreme: Go. Yet here too their grip is beginning to loosen.

Go was invented more than 2,500 years ago in China (Confucius considered it a waste of time). It is a strategic contest in which two players take turns to place stones on the intersections of a grid with 19 lines on each side. Each player tries to stake out territory and surround his opponent. The rules are simple but the play is extraordinarily complex. During a game, some stones will “die”, and some will appear to be dead but spring back to life at an inopportune moment. It is often difficult to say who is winning right until the end.

Deep Blue and its successors beat Mr Kasparov using the “brute force” technique. Rather than search for the best move in a given position, as humans do, the computer considers all white's moves—even bad ones—and all black's possible replies, and all white's replies to those replies, and so on for, say, a dozen turns. The resulting map of possible moves has millions of branches. The computer combs through the possible outcomes and plays the one move that would give its opponent the fewest chances of winning.

Unfortunately, brute force will not work in Go. First, the game has many more possible positions than chess does. Second, the number of possible moves from a typical position in Go is about 200, compared with about a dozen in chess. Finally, evaluating a Go position is fiendishly difficult. The fastest programs can assess just 50 positions a second, compared with 500,000 in chess. Clearly, some sort of finesse is required.

In the past two decades researchers have explored several alternative strategies, from neural networks to general rules based on advice from expert players, with indifferent results. Now, however, programmers are making impressive gains with a technique known as the Monte Carlo method. This form of statistical sampling is hardly new: it was originally developed in the Manhattan project to build the first nuclear bombs in the 1940s. But it is proving effective. Given a position, a program using a Monte Carlo algorithm contemplates every move and plays a large number of random games to see what happens. If it wins in 80% of those games, the move is probably good. Otherwise, it keeps looking.

This may sound like a lot of effort but generating random games is the sort of thing computers excel at. In fact, Monte Carlo techniques are much faster than brute force. Moreover, two Hungarian computer scientists have recently added an elegant twist that allows the algorithm to focus on the most promising moves without sacrificing speed.

The result is a new generation of fast programs that play particularly well on small versions of the Go board. In the past few months Monte Carlo-based programs have dominated computer tournaments on nine- and 13-line grids. MoGo, a program developed by researchers from the University of Paris, has even beaten a couple of strong human players on the smaller of these boards—unthinkable a year ago. It is ranked 2,323rd in the world and in Europe's top 300. Although MoGo is still some way from competing on the full-size Go grid, humanity may ultimately have to accept defeat on yet another front.

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Physiology

# Well-meaning mums

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**A woman's cells may protect her child's organs throughout life**

MOTHERS interfere with their children's lives even more than most offspring realise. That they nag about eating habits and short hemlines is well known. What goes unnoticed is that mothers leave cells inside their children's bodies, which may help with repairs when a child's own cells go awry.

This form of maternal meddling is called microchimerism. A mother's cells can endure until a child reaches adulthood and perhaps throughout life. But scientists do not know exactly how common microchimerism is. It is detected more often in people with autoimmune conditions, which has led to the suggestion that the maternal cells could trigger those diseases. But healthy people have them too, seemingly with no ill effects.

Lee Nelson, of the University of Washington, in Seattle, suspects that everybody has a few maternal cells. Her most recent work, published in the *Proceedings of the National Academy of Sciences*, argues that, at least in some cases, they help rather than harm. Her research consisted of two parts. In the first, Dr Nelson and her colleagues took blood samples from three groups of young volunteers and their mothers. The first group comprised 94 young volunteers who had type 1 diabetes; the second were 54 of their healthy siblings; and a further 24 were children without diabetes who were not related to anyone else in the study. The researchers then compared DNA from the mothers and their children.

Because mothers pass copies of about half their genes to their children, some genes in any child-mother pairs will be unique to the mother—those that the child has not inherited from her. Others—versions of genes that came from dad—will be unique to the child. Dr Nelson used the uniquely maternal genes to find mothers' cells in the volunteers' blood. The technique found maternal cells in about half the diabetics' samples, but in only about one-third of the healthy siblings' samples and in less than one-fifth of those from the unrelated volunteers. Moreover, the microchimerism was not only more common but also more pronounced in diabetics. Dr Nelson found that diabetics with maternal cells tended to have more of them than did non-diabetics with maternal cells. Why?

In the second half of the study, Dr Nelson examined the pancreatic tissue of four dead boys, one of whom had been diabetic. Specialised cells within that tissue, called islet beta cells, make insulin. Usually, by the time diabetes is diagnosed most islet beta cells have stopped working. Dr Nelson wanted to know whether maternal cells had made their way to the pancreas, especially in the diabetic child, and, if so, what they had done there.

To her surprise, she found female cells (presumably from mother) in all four samples. Furthermore, these cells had transformed themselves into the insulin-producing islet beta cells. They also produced insulin, demonstrating that mothers do indeed interfere at a cellular level.

Dr Nelson also looked for signs that the maternal cells had caused the diabetes but found no evidence. So, contrary to established opinion, she believes maternal cells can do children good—and that there is no reason to think they do so only in the pancreas. These cells may help any bodily organ work better, she says, apart from the reproductive kind. Mothers' protective meddling goes on—seen and unseen.

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Fish genetics

# Casting eggs into the waters

Jan 25th 2007
From The Economist print edition

**How bony fish came to dominate the oceans by adapting to salt water**

EVERY second species of vertebrate on the planet is a bony fish. How did this come about? The theory is that bony fish evolved in fresh water and subsequently recolonised salt water. That is a hard physiological trick, but a new piece of research suggests how it may have been done.

Bony fish are better known to scientists as teleosts. Most fish alive today, apart from species such as sharks and rays, are teleosts. But it was not always so. For 150m years the bony fish were restricted to freshwater and a modest number of species. Their meteoric diversification happened suddenly, about 55m years ago, when they took to the sea.

What makes teleosts unique—and what many experts believe lies behind their diversity—is that they have a lot of genes. Their evolution was punctuated with three whole genome duplications: one, at the inception of the vertebrates; another when vertebrates evolved jaws; and a third marking the beginning of the teleost line. Doubling a genome does not in itself create diversity: the burst of new species did not happen when bony fish first evolved. What it does do, however, is extend the genetic canvas on which mutations can paint without impinging on genes that are necessary for survival.

The key to dominating the seas, according to Nigel Finn and Borge Kristoffersen, of the University of Bergen, in Norway, is to evolve floating eggs that contain sufficient unsalty water. Such eggs could catch ocean currents and spread into different niches. Separated populations, given time, could evolve into new species. The idea is attractive because it fits well with when fossils suggest diversification happened.

Such an alteration would be needed to allow freshwater fish eggs to survive and travel far in salt water. As every schoolchild should know, water moves from a dilute to a concentrated solution through a semipermeable membrane by a process called osmosis. A freshwater egg afloat in the sea would thus shrivel up and die. What is needed is an egg with an impenetrable barrier that contains water at the right salt concentration for life.

A paper by Dr Finn and Mr Kristoffersen in the latest issue of *Public Library of Science One* describes the genetic changes that lie behind such eggs. Using a software program to compare the sequences of the genes that give the instructions for making egg proteins, they show that teleosts with floating eggs share a gene called *VtgAa*. This gene gives instructions for making a yolk protein that gets chopped up by enzymes in the last stage of egg development, inside a teleost's ovary.

As these chopped-up products accumulate, they create an osmotic force that draws water into the developing egg from the mother-to-be's blood. That furnishes the egg with enough water to carry out the reactions of embryo development. Soon after spawning, the egg membranes undergo chemical reactions that seal the pores that let water into or out of the egg. The eggs float because their interior is less dense than the surrounding sea. And that, it seems, is how bony fish came to dominate the oceans.

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# The Richard Casement internship

Jan 25th 2007
From The Economist print edition

We invite applications for the 2007 Richard Casement internship. This is for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology. Our aim is more to discover writing talent in a science student or scientist than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words that they think would be suitable for publication in the Science and technology section. They should be prepared to come for an interview in London or New York, at their own expense, but a small stipend will be paid to the successful candidate. Applications must reach us by February 22nd. They should be sent by e-mail to casement2007@economist.com

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The future of Europe's economy

# The squeeze is on

Jan 25th 2007
From The Economist print edition

**A new economic history argues that Europe's institutions must adapt if the continent is to thrive in future**

The European Economy Since 1945: Co-ordinated Capitalism and Beyond
By Barry Eichengreen

*Princeton University Press; 495 pages; $35 and £22.95*

Buy it at
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Daniel Pudles

THERE are, writes Barry Eichengreen, two popular views of the European economy: it is either a “phoenix” or a “basket case”. The optimists point out that after the second world war, west Europeans produced only half as much per hour as Americans did; now Europe's average is not far below America's and some countries, notably France, do even better. Since the turn of the century, the euro zone has created more jobs than the United States.

The gloom-mongers scoff that American productivity has outstripped Europe's in the past decade. They run through the familiar litany of Europe's failings: high unemployment, despite all those new jobs; rigid markets for goods, services and labour; and burdensome taxes.

You can perhaps reconcile these two extremes, suggests Mr Eichengreen, if you choose your periods carefully. Compare the end of the last century with the middle of it, “and there is no disputing the phoenix view.” More recently, however, Europe has tended to lag behind America. And that, concludes this sympathetic American observer (a professor at the University of California, Berkeley), gives rise to doubts about the old continent's future

economic prowess.

The key to these two facets of the economy lies in Europe's institutions. In lesser hands, “institutions” might be a lazy, catch-all explanation. Mr Eichengreen, though, crafts his arguments well. Western Europe's rapid post-war growth, he says, stemmed from more than the free play of market forces: cohesive trade unions and employers' associations, often inherited from pre-war times, and growth-minded governments were needed too. Hence the “co-ordinated capitalism” of his subtitle.

He makes a strong case that Europe did not start from scratch after the war. A good deal of physical capital remained; and of the roads, railways and factories that had been destroyed, much could be quickly rebuilt. By 1947, industrial production had surpassed 1938 levels, if Germany is left out of the European average; by 1948, production was as high as it had been a decade earlier even if Germany is included. The continent also had plenty of what economists call human capital and the rest of us call skilled and educated people.

Co-ordinated capitalism worked well in those countries that had it. Britain, with its fragmented unions and employers' groups, was a conspicuous exception, and its attempt to mimic French indicative planning in the 1960s was a conspicuous failure. Co-ordination crossed borders too, in the shape of what eventually became the European Union.

Strains showed even when co-ordinated capitalism was in its prime, most clearly in the series of exchange-rate realignments from the 1950s to the 1990s. Pride played as big a part as economics in patching up the system: just about every devaluation of the French franc seems to have been dressed up as a revaluation of the D-mark.

Europe's institutions served it less well once it had more or less caught up with America. They were much less good at fostering “intensive growth”—pushing back the bounds of economic possibility as opposed to merely catching up with them. Even in the 1950s and 1960s, while America put its research and development dollars into aerospace and electronics, Europe went for marginal improvements in chemicals, textiles and machinery—in Italy, for example, adding numerical controls to existing textile looms rather than coming up with altogether new machines. This was already beginning to matter by the end of the 1960s, with labour tight and living standards getting close to American levels. It is not clear that Europe has cracked this problem even now.

To be sure, structural reforms are afoot. Competition from central and eastern Europe, as well as China and India, is shaking unions and bosses in the west of the continent out of their old complacency. Expensive health-care and pension systems are being rethought, if not yet sufficiently overhauled. Mr Eichengreen does his best to sound optimistic—although, guessing that new technology will be as important to growth prospects as in the past decade, only cautiously so.

He sees reform efforts such as the Lisbon agenda, intended to make Europe the world's “most competitive” economy by 2010, as an attempt to overcome institutional inertia. Progress has been slow. Many old strains are still there. Some take the same form: witness the perennial battles over how much political integration should accompany the economic variety. Some have a new twist: grumbles from France and Italy about the wage restraint that has led to Germany's economic revival (see article) have echoes of the old demands for a stronger D-mark. The difference now is that there is no franc or lira to be devalued: French and Italian labour and product markets must change instead.

Naturally, no single story will fit such a varied continent. Mr Eichengreen has made a decent job of weaving different national shades into his book, while keeping the whole within reasonable bounds. In particular, he does justice to central and eastern Europe in communist times, helped by vivid examples of planning failures and partial reforms—for example, a quarter of all shoes sold in Hungary in 1951 were officially classed as substandard. And he has much to say about communism's collapse and its aftermath, as well as the reintegration of those countries with the west of the continent.

Almost as a matter of definition, no book of modern economic history can expect to remain the standard work for long. Mr Eichengreen, by posing the question of Europe's ability to adapt, foreshadows his study's mortality: within a few years, answers will have been supplied and new questions asked. But there is more than enough here to digest for now. For both Americans who want to understand Europe's successes and failures, and for Europeans who want to know where their continent was right and where it has gone wrong, Mr Eichengreen has provided an excellent summary.

The European Economy Since 1945: Co-ordinated Capitalism and Beyond.
By Barry Eichengreen.
*Princeton University Press; 495 pages; $35 and £22.95*

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About sponsorship

**Islam and the left**

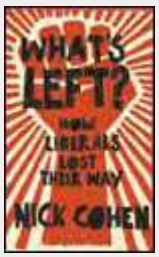
# Dazed and confused

Jan 25th 2007
From The Economist print edition

AS A child Nick Cohen was not allowed to eat oranges from South Africa (apartheid), Spain (Franco's fascism), Israel (occupation) or Florida (his mother detested Nixon). He grew up on the left and assumed that the left stood on the moral high ground. Now he feels betrayed. Events since September 11th 2001, and especially since the invasion of Iraq, have persuaded this British newspaper columnist that the left has been turned upside down. Almost everywhere, he says, leftists are likelier than conservatives to excuse fascistic governments and movements. The failure of socialism has freed the left "to go along with any movement however far to the right it may be, as long as it is against the status quo in general and, specifically, America."

The particular target of this wide-ranging polemic is the recent unholy alliance between left-wing movements in the West and the right-wing bigotry of Islamic extremism. Mr Cohen was dismayed after September 11th when British commentators hinted that America had "had it coming". His own editor at the *New Statesman* wrote a pernicious editorial musing that the American bond traders who perished in the twin towers were less innocent than Vietnamese or Iraqi victims of terror because they lived in a democracy yet had chosen to vote for George Bush instead of Al Gore (although, as Mr Cohen observes, Osama bin Laden had declared war on America long before, when Bill Clinton was president).

What's Left?: How Liberals Lost Their Way
By Nick Cohen




*Fourth Estate; 405 pages; £12.99*

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The reaction to September 11th was bad enough. Worse came with the approach of the Iraq war. Mr Cohen was bemused at the anti-war protests around the world in February 2003, in which millions of supposedly liberal-minded people marched in order, as he puts it, "to oppose the overthrow of a fascist regime".

He concedes that a case could be made against the war on the grounds of legality, the human cost, unforeseen consequences and so forth. But few of the marchers seemed to take any account at all of the near-genocidal nature of Saddam's rule. Afterwards, moreover, even those who had opposed the war could have taken the side of Iraq's would-be democrats. The left chose instead to ennoble as a "resistance" the jihadists and Baathists who continue deliberately to slaughter thousands of civilians in the hope of creating a right-wing theocracy or restoring dictatorship.

It is, in the author's word, all disgraceful, and a profound betrayal of the values—anti-fascism and support for the underdog—which the mainstream left had at its best instinctively upheld. If Mr Cohen's aim is to discomfort the many whose self-righteous resentment of Mr Bush and Tony Blair has dulled their moral judgments, he succeeds brilliantly. He is less successful in explaining why they have reacted this way. Is it a scared refusal to see Islamist terrorism for the implacable, irrational enemy it is? Is it a deep-seated anti-Americanism? Whatever the cause, Mr Cohen predicts confusion ahead. "The time will soon come when the liberal-left's escape routes will close, George W. Bush, their bogeyman, will be gone and they will be all alone in a frightening world without the enemy who has defined them and held them together for so long." You get the feeling that he can hardly wait.

What's Left?: How Liberals Lost Their Way.
By Nick Cohen.
*Fourth Estate; 405 pages; £12.99*

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About sponsorship

France, Israel and Islam

# How not to win friends

Jan 25th 2007
From The Economist print edition

EPA

**And what about fraternité**

Betrayal: France, the Arabs, and the Jews
By David Pryce-Jones

*Encounter Books; 185 pages; $23.95*

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THIS small book makes two large claims. By appeasing Muslims and opposing Zionism, says David Pryce-Jones, France has betrayed its own enlightened values. And in its ambitions to be a "Muslim power"—one that is well placed to take advantage of its special relationship with Muslims—France has put its future in jeopardy. That is because Muslims have now turned the tables by sucking France into the Islamic world's own sphere of influence. As a child, Mr Pryce-Jones found himself in France in 1940. He likens today's French policy towards Muslims to the Maginot line—"a masking of reality, a standing invitation to self-deception".

Since its revolution France's position towards Jews has, says the author, followed the formula of the aristocrat who said in 1789 that everything must be refused to Jews as a nation, and everything granted to them as individuals. France therefore consistently opposed Zionism. Delving into the records of the Quai d'Orsay, and of the diplomats and intellectuals associated with it, Mr Pryce-Jones produces much interesting and dismaying evidence that French anti-Zionism and anti-Semitism marched together for much of the 19th and 20th centuries.

The prevalence of anti-Semitism in the higher reaches of the establishment, however, was hardly confined to France in that period. And Mr Pryce-Jones fails to demonstrate that in opposing Zionism France was motivated by prejudice alone. Indeed, his own research shows that France saw Zionism as a threat to its interests in the Levant. French diplomats foresaw, accurately, that Jewish nationalism in Palestine would aggravate Arab nationalism and turn Arabs against the West. France did, nonetheless, support Palestine's partition in the crucial United Nations vote of 1947 and recognised Israel in 1949—albeit, says Mr Pryce-Jones, with "bad grace".

Another difficulty for the author is that from the early 1950s to 1967 France and Israel were close. There was the collusion over Suez. And it was France, after all, which equipped Israel's air force and gave it a nuclear reactor. Mr Pryce-Jones dismisses this as cold calculation: the two countries had discovered a mutual enemy in Egypt's Gamal Abdul Nasser, who threatened France's hold on Algeria. Besides, after the war of 1967, the friendship ended: General de Gaulle was furious that Israel had had the temerity to reject his advice against war. At a famous press conference he denounced Jews as "an elite people—self-assured and domineering".

Thereafter, in the author's view, a France striving vainly for lost glories appeased one Arab dictator after another for the sake of influence or money. It sold Mirage fighters to Muammar Qaddafi, championed Yasser Arafat, courted Saddam Hussein (supplying him with the nuclear reactor that Israel later destroyed) and provided a refuge (and useful political base) for Iran's Ayatollah Khomeini. Israel's concerns received little sympathy. One senior French ambassador is reported recently to have called Israel "that shitty little country"; Dominique de Villepin allegedly forecast that it was a "parenthesis in history" and would eventually disappear.

France is indeed hardly Israel's most reliable friend. But Mr Pryce-Jones, a novelist as well as a journalist, has a love of exaggeration. Is France so exceptional—and so wrong—to have denounced Israel's attempt to stay forever in the occupied territories after 1967? Besides, what is the connection between French hostility towards Zionism and the dire future the author paints for France as a country dominated by Islam? He says that the position of Jews in France is called into question by the "historic contempt" for Israel as a mainstay of Jewish identity, whereas Arabs "have been accustomed to cajolery of the French state, and the expected privilege that goes with it". Really? Tell that to the unemployed Arab kids in the *banlieues*.

Betrayal: France, the Arabs, and the Jews.
By David Pryce-Jones.
*Encounter Books; 185 pages; $23.95*

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**Literary biography**

# Grand dame

Jan 25th 2007
From The Economist print edition

IN 1918, Edith Wharton stood in front of a crowd of American soldiers and told them she would get out of her grave to witness for France. Hermione Lee's new biography casts Wharton as "the great generalissima", in Henry James's words, "Edith the transcendent", channelling her mighty energies into war work on behalf of France. Henry James wrote to her from England: "All my blessings on your splendid resolution, your courage & charity!"

The common image of Mrs Edith Wharton was as a *grande dame* New York authoress—writing in bed each morning, Pekinese on her pillow, tossing her completed pages over the side of the bed for her secretary to type up. Her biographer has chosen to emphasise Wharton's life as a European—rather than as an American—who rejected New York society, moved to France and stayed there for the last 30 years of her life. In Wharton's fiction and life, Europe stood for sex, culture and imagination, all lacking in old New York.

In 1862, Edith Newbold Jones was born into an "old-established New York clan", as Ms Lee puts it. With no formal education, "Pussy" Jones spent her childhood reading and "making up" (compulsively walking up and down very fast with a book in her hand, while improvising an imaginary story out loud). From childhood on, books held a place of almost religious prominence in Wharton's life.

Edith Wharton
By Hermione Lee

*Chatto & Windus; 853 pages; £25. To be published in America by Knopf in April*

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Amazon.com
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A passionless relationship with Teddy Wharton, whom she married at 23, grew unbearable when his mental health collapsed. She turned to intimate friends, such as Walter Berry, Henry James and Bernard Berenson, and, in her late 40s, fell into an all-consuming love affair with the dodgy and bisexual Morton Fullerton.

Wharton's career took off in 1905 when "The House of Mirth", her most famous and, arguably, best novel, was published. Like "The Custom of the Country" and "The Age of Innocence", it centred on money, status, marriage and divorce—all badges of the privileged class. Though Wharton skilfully depicts "ordinary" characters in a powerful novella, "Ethan Frome", her writing on America's working class was never quite as successful commercially as her other fiction. Her recurring themes of loss, such as the escape that proves to be no escape, still resonate today, as does her indictment of her own milieu.

To view Wharton's fiction as strait-laced, however, is to miss the elephant in the room. Codes and signs abound, each pointing to what is bubbling below the surface in a society that defined itself by what it excluded. To her credit, Ms Lee does not pass lightly over Wharton's racism, anti-Semitism and anti-feminism, all three prejudices that place her squarely in the company of those she satirised.

Wharton divorced in 1913, but, like Newland Archer in "The Age of Innocence", a story of thwarted love, she had already missed the "flower of life". Late in life, Newland goes to Paris and stands outside Ellen Olenska's building, but he does not go inside. Wharton never remarried, although she had a long and intimate, though ambiguous, relationship with Walter Berry.

Ms Lee believes that Wharton and her work are still misrepresented, largely because of her friend Percy Lubbock's "spiteful memoir", in Ms Lee's words, which painted Wharton as a "chilly, controlling chatelaine". In spite of R.W.B. Lewis's acclaimed 1975 life, Lubbock's version lingers. Hermione Lee has written a fascinating portrait of a brilliant writer. "Goodbye, dear *grande viveuse*," Henry James wrote to her in the final year of his life. "Keep rising above (you do it so splendidly)."

Edith Wharton.
By Hermione Lee.
*Chatto & Windus; 853 pages; £25. To be published in America by Knopf in April*

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About sponsorship

American philanthropy

# The rage of giving

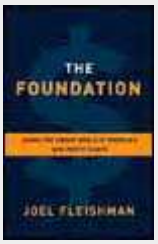
Jan 25th 2007
From The Economist print edition

THERE is much talk nowadays of a new golden age of philanthropy dawning. But is the hype justified? Giving has become all the rage among today's rich and famous, from billionaire bosses, notably Bill Gates and Warren Buffett, to celebrity baby-adopters such as Madonna. But while their generosity is certainly immense, growing and mostly admirable, its impact on the people and good causes embraced by the big givers is unclear. Any budding philanthropist who aspires to make a better world, rather than merely to feel a better person, should read Joel Fleishman's wise book, “The Foundation”.

At first glance, you might mistakenly think that this history of America's charitable foundations is a hagiography written by a philanthropy insider. For one thing, the book's upbeat subtitle is “A Great American Secret”. For another, the author used to run the American arm of the Atlantic Philanthropies, a foundation established by Chuck Feeney, who made a fortune in duty-free retailing.

Mr Fleishman now heads a research programme on foundations at Duke University. He writes about foundations with the same underlying fondness he had for the fine wines he used to review for *Vanity Fair*. Drawing on over 100 case studies, he argues that philanthropists have been the driving force behind America's famously vibrant civil society—as well as doing considerable good farther afield.

The Foundation: A Great American Secret—How Private Wealth is Changing the World
By Joel L. Fleishman




*PublicAffairs; 357 pages; $27.95 and £16.99*

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In America, foundations played a part in everything from the spread of public libraries and the development of high-quality business schools to the creation of the nationwide 911 emergency response system and the “Sesame Street” TV show. Abroad they had a big hand in the “green revolution”, which raised agricultural productivity in poor countries, and in the development of microcredit through the Grameen Bank.

Yet Mr Fleishman packs an iron fist inside his velvet glove. He does not gloss over the embarrassing moments in foundation history. The Carnegie Institution and Rockefeller Foundation supported eugenics programmes in Germany into the 1930s, for example. Rockefeller supported syphilis experiments in Alabama which did not have the consent of the subjects.

A chapter on “How Foundations Fail” is a particularly sobering read, and reinforces Mr Buffett's comment last year, when he announced he was to donate his fortune via the Bill and Melinda Gates Foundation, that making money can be a lot easier than successfully giving it away.

In general foundations are in a state of public denial about their failures, though Mr Fleishman provides a long list of them. One of the worst was the Annenberg Challenge, launched in 1993. Of the fortune created by Walter Annenberg, a publishing baron, $500m was donated to improve the quality of America's public (ie, state-run) schools. Yet, it is generally agreed, “the impact was negligible.”

Mr Fleishman blames lack of good strategy, inadequate and fragmented leadership, arrogance and a lack of transparency. As a result, he argues, the foundation sector “seriously underperforms its potential” both in the social benefit it generates and the “mission that its freedom from substantial government and social control is designed to fulfil.”

He has plenty of ideas for raising the game of existing foundations, and helping new ones avoid repeating past errors. At the heart of these is a voluntary effort to make foundations more transparent—especially by honestly reporting failures—and more open and accountable to a public that seems largely ignorant of their existence and the role they play.

Foundations, he laments, “operate within an insulated culture that tolerates an inappropriate level of secrecy and even arrogance in their treatment of grant-seekers, grant-receivers, the wider civic sector, and the public officials charged with oversight. This needs to change.” Something, then, for those trendy new philanthropists to ponder.

The Foundation: A Great American Secret—How Private Wealth is Changing the World.

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*PublicAffairs; 357 pages; $27.95 and £16.99*

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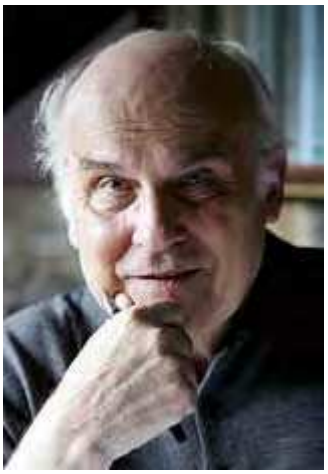
Ryszard Kapuscinski

# Poland's loss

Jan 25th 2007
From The Economist print edition

**Poland's giant of reportage is dead**

Reuters



**Writing from the bottom up**

FOREIGN correspondents like their comforts. But as a roving reporter in the third world for the cash-strapped Polish News Agency, Ryszard Kapuscinski, who died this week aged 74, lived more like a local. He travelled on buses, not in chauffeured jeeps, and stayed in rooming houses, not hotels.

He started as a journalist; he liked to say that he had covered 27 coups and revolutions in Africa, Asia and Latin America. But he was a better writer than reporter; his 20-plus books, mixing subtle psychological reflection and vivid description, invited comparisons with Joseph Conrad, another Polish-born lover of faraway places.

His unique perspective from the bottom was matched by lively (critics called it imaginative) reporting from (or about) the innermost sanctums. “The Emperor”, his best-known book, told the story of the downfall of Haile Selassie of Ethiopia, ostensibly from inside the walls of the royal palace. Most Poles read it enthusiastically as an allegorical account of their own fossilised power structures. That may have been the best way of reading it.

It was something of a mystery that Mr Kapuscinski could work so freely during the cold war. His colleagues at home struggled with communist censorship. Foreign correspondents from communist countries were regarded, usually rightly, as spies by their Western counterparts. But Mr Kapuscinski's first decade of reporting, covering the end of European empires in Africa—a topic favoured by the communist propaganda machine—seemed to have established him as trustworthy in his masters' eyes. Thereafter, he benefited from his fame and seniority.

Mr Kapuscinski was born in Pinsk, a dirt-poor pre-war Polish provincial town. He twice saw the Red Army storm westward, once in alliance with Hitler and once against him. Then his home region became part of the Soviet Union. His intuitive sympathy with those facing arbitrary violence and poverty was, he used to say, shaped by having seen it at first hand.

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# Alice Lakwena

Jan 25th 2007
From The Economist print edition

AFP

**Alice Auma Lakwena, warrior and spirit-channeller, died on January 17th, aged 50**

AT A place called Wang Jok, in Paraa National Park in northern Uganda, the Nile flows strongly among trees and over rapids. This is a magic spot: coins, pots and human figures sometimes mysteriously appear from the river. And if you had visited Wang Jok in May 1986 you might have seen, sitting beside the water, a young woman of 30 apparently talking to herself.

People from Opit, the railway town where she lived, knew her as Alice Auma. She sold fish and flour with another woman and had had two husbands, both of whom had deserted her because she was barren. But it was not Alice Auma who was sitting by the Nile. She was possessed by a spirit called Lakwena, and he was holding a consultation with all the animals of the park.

They swarmed round him in a huge bellowing crowd, elephants and hippopotami and crocodiles and giraffes, many of them holding up wounded limbs to be healed. Lakwena asked them who was responsible for the civil war in Uganda, in which the Acholi rebels of the north were fighting the troops of Yoweri Museveni's National Resistance Army. They replied that “the people with two legs” were the violators of peace and Nature. A waterfall and a mountain were interrogated too. They gave back the same answer.

Thus began Alice's mission to purify first her native Acholi, then Uganda, then the world. Lakwena gave her stones and water, with which she went back to Opit and began to heal people. Beside the railway station she built a temple of mud-blocks and thatch in which, as Lakwena, she would sit on a throne and give instructions. When the men muttered that she was only a woman, Lakwena would announce in his commanding voice that he had possessed her precisely because she was a woman and a sinner, who had never got beyond seventh year in primary school; he was making an example of a hard case, saving her first, before he saved the wicked Acholi in general.

Lakwena also offered, in August 1986, to conduct the war for them. And when the rebel commanders ignored him, he and Alice formed their own army. The Holy Spirit Mobile Forces (HSMF) numbered at their peak around 10,000 souls, not a few of them abducted children; and for a brief spell they were the most successful of all the groups fighting the NRA, which was now the Ugandan government.

Their methods were unorthodox. Lakwena, giving orders that his soldiers wrote down neatly in school exercise books, forbade them to use weapons. They did not need to, because they were pure. Each man had burned his witchcraft charms, and had appeased the spirit of anyone he had killed previously; and as the army marched into battle, singing Catholic hymns and with their bare torsos smothered in shea-nut oil, the bullets of the enemy would bounce right off them. Nature, too, was on their side. Water, if they were polite to it and “bought” each river they crossed with coins and shells, would block the enemy or drown him. Stones, if they threw them, would explode like grenades.

## Avoiding anthills

Lakwena expressed these war-rules through Alice twice a day, at seven in the morning and seven at night, as she sat in a white robe on a fold-up chair in the middle of the camp. He made her repeat the 20 Holy Spirit Safety Precautions: no walking-sticks on the battlefield, no hiding behind anthills, no smoking, and each man to have “two testicles, neither more nor less”. Round Alice stood three charcoal stoves on which little wire replicas of enemy weapons were heated until they glowed and then waved above the soldiers' heads to immunise them. Something worked, for in several encounters the NRA soldiers, faced by rampant hymn-singers, dropped their weapons and ran away.

Alice revealed a little about Lakwena. He was an Italian army captain, drowned in the Nile in the first world war, who spoke 74 languages, including Latin. He had taken possession of her so violently in January 1985 that she ran amok and could not hear or speak. Sometimes, to discipline her, he would make her ill or order that she should be beaten six times with a stick. But he shared her body with other spirits: Wrong Element, a loud-mouthed American; Franko from Zaire; several Koreans and Arabs; and an Acholi nurse, Nyaker, whose voice was so thin that the soldiers could not understand it. They never knew, they said, whether Alice was a spirit or a person from one day to the next.

Gradually, however, she seemed to resolve into an ordinary wilful woman. As the HSMF marched south towards Kampala in the late summer of 1987, the influence of the spirits and Alice's own power seemed alike to be fading. The bullets no longer bounced off, and the enemy didn't run away. At Jinja, not far from the capital, the HSMF was smashed by artillery fire, and Alice fled on a bicycle.

The remnants of her soldiers—mustered under Joseph Kony, an ex-altar boy who claimed to be her cousin—metamorphosed into the horrifyingly violent Lord's Resistance Army, which continues to kill, rape, pillage and abduct children in today's Uganda. Alice settled in a refugee camp in Kenya, a greying barfly drinking gin and Coke. Lakwena returned to the Nile, and the Nile flows on.

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# Overview

Jan 25th 2007
From The Economist print edition

**Oil prices** rebounded sharply after President George Bush promised to increase America's strategic oil reserves. The price of the benchmark West Texas Intermediate rose above $55 on Tuesday, but eased later in the week.

In **Britain**, GDP grew by 0.8% in the fourth quarter, slightly faster than expected, and by 2.7% in 2006 as a whole. The Bank of England's decision to raise interest rates earlier this month was a close call. The minutes of the meeting, published this week, revealed a 5-4 vote in favour.

**German** businessmen remain upbeat about their economy, according to January's Ifo survey of the business climate. The index's reading of 107.9 was slightly lower than last month's record, but still quite cheery.

In the year to the fourth quarter **China's** GDP grew by 10.4%. **South Korea's** grew by 4.0%.

In **Canada**, headline inflation rose from 1.4% to 1.6% in December, partly because of increases in petrol and tobacco prices. The core rate of inflation dropped from 2.2% to 2.0%.

**Norway's** central bank unexpectedly raised interest rates to 3.75%, its third increase in as many months. **Brazil's** central bank cut its key rate by 0.25 percentage points to 13%.

**Spain** is outstripping its neighbours in the euro area, the OECD noted in its latest report on the country. But for how long? Its inflation rate is eroding its competitiveness (see chart in article), its external deficit is at historic highs, and household debts are mounting.

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About sponsorship

# Output, prices and jobs

Jan 25th 2007
From The Economist print edition

## Output, prices and jobs

% change on year ago

| | Gross domestic product | | | | Industrial production | Consumer prices | | | Unemployment |
|---|---|---|---|---|---|---|---|---|---|
| | latest | qtr* | 2006† | 2007† | latest | latest | year ago | 2007† | rate‡, % |
| United States | +3.0 Q3 | +2.0 | +3.3 | +2.2 | +3.0 Dec | +2.5 Dec | +3.4 | +2.0 | 4.5 Dec |
| Japan | +1.6 Q3 | +0.8 | +2.3 | +1.9 | +4.9 Nov | +0.3 Nov | –1.0 | +0.4 | 4.0 Nov |
| China | +10.4 Q4 | na | +10.5 | +9.4 | +14.9 Nov | +1.9 Nov | +1.3 | +2.1§ | 9.8 2006 |
| Britain | +3.0 Q4 | +3.2 | +2.6 | +2.4 | +0.8 Nov | +3.0 Dec** | +1.9 | +2.2 | 5.5 Nov†† |
| Canada | +2.5 Q3 | +1.7 | +2.8 | +2.4 | –2.4 Oct | +1.6 Dec | +2.2 | +2.0 | 6.1 Dec |
| Euro area | +2.7 Q3 | +2.0 | +2.7 | +2.0 | +2.5 Nov | +1.9 Dec | +2.2 | +2.1 | 7.6 Nov |
| Austria | +3.2 Q3 | +3.6 | +2.8 | +2.3 | +5.7 Oct | +1.5 Dec | +1.6 | +1.6 | 4.7 Dec |
| Belgium | +3.1 Q3 | +2.5 | +2.8 | +2.1 | nil Nov | +1.6 Dec | +2.9 | +1.8 | 11.9 Nov‡‡ |
| France | +1.9 Q3 | nil | +2.0 | +2.0 | –1.1 Nov | +1.5 Dec | +1.5 | +1.4 | 8.7 Nov |
| Germany | +2.8 Q3 | +2.6 | +2.6 | +1.6 | +6.0 Nov | +1.4 Dec | +2.1 | +2.1 | 9.8 Dec |
| Greece | +4.4 Q3 | na | +4.1§ | +3.5§ | –1.8 Nov | +2.9 Dec | +3.6 | +2.8§ | 8.3 Q3 |
| Italy | +1.7 Q3 | +1.1 | +1.8 | +1.2 | +2.2 Nov | +1.9 Dec | +2.0 | +1.9 | 6.8 Q3 |
| Netherlands | +2.7 Q3 | +2.8 | +2.8 | +2.3 | +3.7 Nov | +1.1 Dec | +2.0 | +1.7 | 5.2 Dec†† |
| Spain | +3.8 Q3 | +3.6 | +3.6 | +3.0 | +4.2 Nov | +2.7 Dec | +3.7 | +2.7 | 8.4 Nov |
| Czech Republic | +5.8 Q3 | +5.6 | +6.0 | +4.8 | +7.6 Nov | +1.7 Dec | +2.2 | +3.3 | 7.7 Dec |
| Denmark | +3.2 Q3 | +2.9 | +3.3 | +2.3 | +7.9 Nov | +1.8 Dec | +2.2 | +1.9 | 4.0 Nov |
| Hungary | +3.8 Q3 | +4.2 | +3.7 | +2.4 | +10.8 Nov | +6.5 Dec | +3.3 | +5.9 | 7.5 Sep-Nov†† |
| Norway | +2.6 Q3 | +5.2 | +2.5§ | +2.3§ | –5.8 Nov | +2.2 Dec | +1.8 | +2.6§ | 3.1 Nov†† |
| Poland | +5.8 Q3 | na | +5.3 | +4.7 | +5.7 Dec | +1.4 Dec | +0.7 | +2.5§ | 14.9 Dec‡‡ |
| Russia | +6.5 Q3 | na | +6.7 | +6.5 | +1.9 Dec | +9.1 Dec | +10.9 | +9.2§ | 6.7 Nov‡‡ |
| Sweden | +4.4 Q3 | +4.1 | +4.6 | +3.3 | +6.2 Nov | +1.6 Dec | +0.9 | +1.9 | 4.6 Dec‡‡ |
| Switzerland | +2.4 Q3 | +1.5 | +2.8 | +2.0 | +8.2 Q3 | +0.6 Dec | +1.0 | +1.0 | 3.3 Dec‡‡ |
| Turkey | +3.4 Q3 | na | +5.2 | +4.0 | +10.9 Nov | +9.7 Dec | +7.7 | +8.6§ | 9.1 Q3‡‡ |
| Australia | +2.2 Q3 | +1.2 | +2.5 | +2.9 | +0.9 Q3 | +3.3 Q4 | +2.8 | +2.8 | 4.6 Dec |
| Hong Kong | +6.8 Q3 | +14.8 | +6.0 | +5.0 | –0.6 Q3 | +2.3 Dec | +1.3 | +2.5§ | 4.4 Dec†† |
| India | +9.2 Q3 | na | +8.3 | +7.4 | +14.4 Nov | +6.3 Nov | +5.3 | +6.1§ | 7.6 2006 |
| Indonesia | +5.5 Q3 | na | +5.3 | +5.8 | –4.8 Oct | +6.6 Dec | +17.1 | +6.6§ | 10.3 2005 |
| Malaysia | +5.9 Q3 | na | +5.5 | +5.2 | +7.2 Nov | +3.1 Dec | +3.5 | +3.4§ | 3.1 Q3 |
| Pakistan | +6.6 2006§§ | na | +6.2§ | +6.6§ | +6.8 Sep | +8.9 Dec | +8.5 | +7.0§ | na |
| Singapore | +5.9 Q4 | +7.6 | +7.7 | +5.0 | +14.7 Nov | +0.8 Dec | +1.3 | +1.0§ | 2.7 Q3 |
| South Korea | +4.0 Q4 | +3.2 | +4.9 | +4.2 | +6.3 Nov | +2.1 Dec | +2.7 | +2.3§ | 3.3 Dec |
| Taiwan | +5.0 Q3 | na | +4.1 | +3.9 | –1.7 Dec | +0.7 Dec | +2.2 | +1.5§ | 3.9 Dec |
| Thailand | +4.7 Q3 | +6.0 | +4.3 | +4.3 | +7.7 Nov | +3.5 Dec | +5.8 | +3.6§ | 1.7 Oct |
| Argentina | +8.7 Q3 | +10.8 | +7.9 | +6.3 | +3.8 Nov | +9.8 Dec | +12.3 | +9.8§ | 10.2 Q3‡‡ |
| Brazil | +3.2 Q3 | +1.4 | +3.0 | +3.3 | +4.2 Nov | +3.1 Dec | +5.7 | +3.7§ | 9.5 Nov‡‡ |
| Chile | +2.9 Q3 | –0.2 | +4.7 | +5.3 | +3.2 Nov | +2.6 Dec | +3.7 | +2.3§ | 6.6 Nov†††† |
| Colombia | +7.7 Q3 | +8.1 | +5.1 | +4.5 | +17.4 Oct | +4.5 Dec | +4.9 | +4.2§ | 11.0 Nov‡‡ |
| Mexico | +4.6 Q3 | +4.1 | +4.4 | +3.2 | +4.8 Nov | +4.1 Dec | +3.3 | +3.8§ | 3.5 Dec‡‡ |
| Venezuela | +10.2 Q3 | na | +7.8 | +5.5 | +12.2 Sep | +17.0 Dec | +14.3 | +17.0§ | 10.1 Q3‡‡ |
| Egypt | +7.1 Q3 | na | +5.5 | +5.4 | +4.0 2005 | +12.4 Dec | +3.1 | +6.5§ | 10.9 Q2‡‡ |
| Israel | +4.6 Q3 | –1.1 | +4.2 | +4.2 | +13.2 Nov | –0.1 Dec | +2.4 | +1.7§ | 8.3 Q3 |
| Saudi Arabia | +5.3 2006§ | na | +5.3§ | +5.4§ | na | +2.7 Oct | +0.9 | +2.0§ | na |
| South Africa | +4.5 Q3 | +4.7 | +4.3 | +4.2 | +5.4 Nov | +5.8 Dec | +3.6 | +5.6§ | 25.6 Mar‡‡ |
| **MORE COUNTRIES** Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | | |
| Estonia | +11.6 Q3 | +11.7 | +10.7§ | +8.9§ | +4.8 Nov | +5.1 Dec | +3.6 | +3.8§ | 4.5 Nov |
| Finland | +5.8 Q3 | +3.6 | +4.5§ | +2.7§ | +5.4 Nov | +2.2 Dec | +1.0 | +1.9§ | 7.5 Nov |
| Iceland | +0.3 Q3 | +0.4 | +3.7§ | +0.7§ | na | +6.9 Jan | +4.4 | +5.4§ | 1.1 Nov‡‡ |
| Ireland | +7.7 Q3 | +10.8 | +5.8§ | +5.3§ | –10.8 Nov | +4.9 Dec | +2.5 | +3.4§ | 4.5 Dec |
| Latvia | +11.8 Q3 | na | +10.8§ | +8.0§ | +0.7 Nov | +6.8 Dec | +7.0 | +5.2§ | 6.2 Nov |
| Lithuania | +6.4 Q3 | +5.3 | +7.3§ | +6.5§ | na | +4.5 Dec | +3.0 | +4.4§ | 5.7 Dec |
| Luxembourg | +5.4 Q3 | +4.1 | +5.5§ | +4.3§ | –0.4 Sep | +2.3 Dec | +2.5 | +1.8§ | 4.6 Nov‡‡ |
| New Zealand | +1.3 Q3 | +1.0 | +1.9§ | +1.8§ | –1.4 Q3 | +2.6 Q4 | +3.1 | +3.0§ | 3.8 Q3 |
| Peru | +6.9 Nov | na | +6.0 | +5.4 | +9.4 Oct | +1.1 Dec | +1.5 | +2.2§ | 8.5 Nov‡‡ |
| Philippines | +4.8 Q3 | +1.3 | +5.5 | +5.3 | –19.2 Oct | +4.3 Dec | +6.7 | +5.1§ | 8.0 Q3‡‡ |
| Portugal | +1.5 Q3 | –0.6 | +1.2§ | +1.4§ | +5.5 Nov | +2.5 Dec | +2.6 | na | 7.4 Q3‡‡ |
| Slovakia | +9.8 Q3 | na | +7.5§ | +6.1§ | +9.8 Nov | +4.2 Dec | +3.7 | na | 12.3 Nov |
| Slovenia | +5.6 Q3 | na | +4.5§ | +4.0§ | +8.3 Nov | +2.8 Dec | +2.3 | na | 8.6 Nov‡‡ |

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.4% in Dec. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

**Sources:** National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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# The Economist commodity-price index

Jan 25th 2007
From The Economist print edition

## *The Economist* commodity-price index

2000=100

| | Jan 17th | Jan 24th* | % change on one month | % change on one year |
|---|---|---|---|---|
| **Dollar index** | | | | |
| All items | 183.9 | 186.9 | +0.3 | +22.7 |
| Food | 156.3 | 157.5 | +0.5 | +17.5 |
| **Industrials** | | | | |
| All | 219.6 | 225.1 | +0.1 | +27.8 |
| Nfa† | 151.9 | 153.1 | +7.3 | +3.9 |
| Metals | 256.5 | 264.4 | −2.0 | +37.8 |
| **Sterling index** | | | | |
| All items | 142.2 | 142.7 | −1.2 | +10.2 |
| **Euro index** | | | | |
| All items | 131.5 | 132.6 | +1.0 | +15.6 |
| **Gold** | | | | |
| $ per oz | 624.60 | 645.70 | +4.0 | +15.9 |
| **West Texas Intermediate** | | | | |
| $ per barrel | 51.28 | 53.69 | −11.9 | −19.9 |

*Provisional †Non-food agriculturals.

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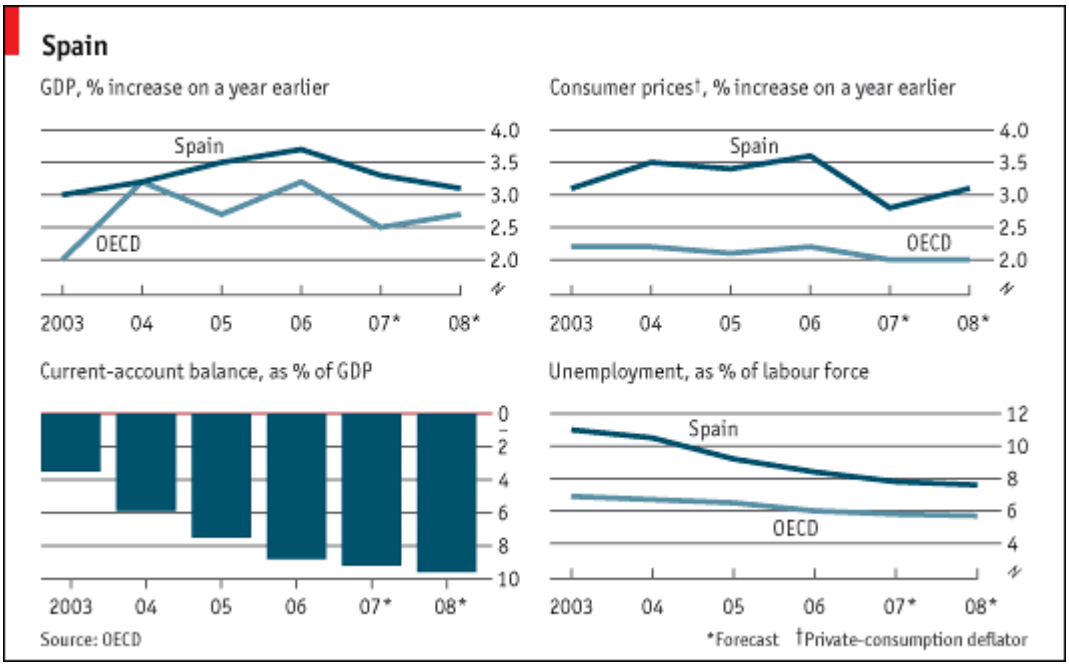
# Spain

Jan 25th 2007
From The Economist print edition

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# Trade, exchange rates, budget balances and interest rates

Jan 25th 2007
From The Economist print edition

## Trade, exchange rates, budget balances and interest rates

| | Trade balance* latest 12 months, $bn | Current-account balance latest 12 months, $bn | Current-account balance % of GDP 2007† | Currency units, per $ Jan 25th | Currency units, per $ year ago | Budget balance % of GDP 2007‡ | Interest rates, % 3-month latest | Interest rates, % 10-year gov't bonds, latest |
|---|---|---|---|---|---|---|---|---|
| United States | −837.2 Nov | −880.3 Q3 | −6.3 | – | – | −2.3 | 5.24 | 4.81 |
| Japan | +79.6 Nov | +171.1 Nov | +3.8 | 121 | 116 | −4.8 | 0.48 | 1.66 |
| China | +177.5 Dec | +160.8 2005 | +6.7 | 7.77 | 8.06 | −1.9 | 2.95 | 3.10 |
| Britain | −152.2 Nov | −69.7 Q3 | −2.8 | 0.51 | 0.56 | −2.7 | 5.56 | 4.90 |
| Canada | +49.8 Nov | +28.9 Q3 | +1.1 | 1.18 | 1.15 | 0.7 | 4.16 | 4.16 |
| Euro area | −15.7 Nov | −31.4 Nov | −0.1 | 0.77 | 0.82 | −1.7 | 3.76 | na |
| Austria | −0.6 Oct | +12.2 Q3 | +1.4 | 0.77 | 0.82 | −1.4 | 3.76 | 4.03 |
| Belgium | +14.8 Nov | +6.8 Sep | +2.2 | 0.77 | 0.82 | 0.1 | 3.81 | 4.04 |
| France | −36.1 Nov | −43.0 Nov | −1.1 | 0.77 | 0.82 | −2.5 | 3.76 | 4.03 |
| Germany | +203.0 Nov | +121.5 Nov | +3.9 | 0.77 | 0.82 | −1.7 | 3.76 | 4.00 |
| Greece | −42.4 Oct | −28.8 Nov | −7.1‡ | 0.77 | 0.82 | −2.9 | 3.91 | 4.25 |
| Italy | −27.1 Nov | −43.5 Oct | −1.8 | 0.77 | 0.82 | −3.5 | 3.76 | 4.19 |
| Netherlands | +39.4 Nov | +63.2 Q3 | +7.8 | 0.77 | 0.82 | 0.6 | 3.76 | 4.02 |
| Spain | −110.1 Oct | −103.9 Oct | −8.5 | 0.77 | 0.82 | 0.6 | 3.76 | 4.05 |
| Czech Republic | +2.0 Nov | −5.2 Q3 | −2.7 | 21.6 | 23.1 | −4.0 | 2.63 | 3.83 |
| Denmark | +6.9 Nov | +7.2 Nov | +2.2 | 5.75 | 6.09 | 3.0 | 3.95 | 3.97 |
| Hungary | −2.8 Nov | −6.9 Q3 | −5.9 | 196 | 203 | −7.1 | 8.14 | 7.24 |
| Norway | +57.3 Dec | +56.0 Q3 | +17.6‡ | 6.35 | 6.55 | 19.3 | 3.99 | 4.45 |
| Poland | −4.1 Nov | −6.5 Nov | −2.3 | 3.00 | 3.11 | −2.5 | 4.20 | 5.14 |
| Russia | +140.8 Nov | +95.6 Q4 | +7.3 | 26.5 | 27.9 | 5.9 | 11.00 | 6.30 |
| Sweden | +20.7 Dec | +26.2 Q3 | +6.4 | 7.00 | 7.55 | 2.4 | 2.98 | 3.89 |
| Switzerland | +9.7 Nov | +105.9 Q3 | +13.4 | 1.25 | 1.26 | 1.2 | 2.16 | 2.53 |
| Turkey | −53.2 Nov | −33.7 Nov | −6.6 | 1.42 | 1.32 | −2.8 | 19.60 | 18.99 |
| Australia | −9.4 Nov | −39.5 Q3 | −5.2 | 1.28 | 1.33 | 1.1 | 6.48 | 5.83 |
| Hong Kong | −17.3 Nov | +19.2 Q3 | +9.3 | 7.80 | 7.76 | 1.1 | 4.00 | 3.95 |
| India | −48.8 Nov | −13.7 Q3 | −2.2 | 44.3 | 44.1 | −4.3 | 7.12 | 8.11 |
| Indonesia | +38.5 Nov | +7.0 Q3 | +1.4 | 9,078 | 9,343 | −0.9 | 9.39 | 6.25§ |
| Malaysia | +28.6 Nov | +22.2 Q3 | +11.1 | 3.50 | 3.75 | −4.1 | 3.72 | 5.40§ |
| Pakistan | −12.9 Dec | −6.0 Q3 | −5.1‡ | 60.8 | 59.8 | −4.6 | 10.33 | 6.54§ |
| Singapore | +33.1 Dec | +39.0 Q3 | +25.2 | 1.54 | 1.62 | 0.3 | 3.38 | 3.12 |
| South Korea | +16.7 Dec | +6.2 Nov | nil | 936 | 969 | 0.4 | 4.94 | 5.04 |
| Taiwan | +21.3 Dec | +26.3 Q3 | +5.0 | 32.8 | 32.0 | −2.8 | 1.82 | 2.07 |
| Thailand | +1.3 Nov | +2.1 Nov | nil | 35.1 | 39.1 | −1.2 | 5.05 | 4.72 |
| Argentina | +12.4 Dec | +6.7 Q3 | +1.6 | 3.10 | 3.04 | 1.4 | 10.13 | na |
| Brazil | +46.1 Dec | +13.7 Nov | +0.3 | 2.13 | 2.25 | −2.2 | 13.19 | 6.16§ |
| Chile | +22.1 Dec | +5.2 Q3 | +2.2 | 540 | 527 | 5.8 | 5.04 | 5.38§ |
| Colombia | +0.3 Oct | −2.3 Q3 | −2.1 | 2,258 | 2,273 | −1.5 | 6.81 | 6.26§ |
| Mexico | −5.8 Dec | −1.3 Q3 | −1.1 | 11.0 | 10.5 | −0.3 | 7.06 | 7.90 |
| Venezuela | +36.8 Q3 | +29.7 Q3 | +10.1 | 4,368 | 2,735 | −2.5 | 10.00 | 6.55§ |
| Egypt | −11.1 Q2 | +3.5 Q2 | +1.1 | 5.71 | 5.73 | −8.0 | 9.65 | 5.59§ |
| Israel | −7.9 Dec | +6.7 Q3 | +1.5 | 4.23 | 4.60 | −2.9 | 4.61 | 5.04 |
| Saudi Arabia | +125.6 2005 | +90.0 2005 | +25.7‡ | 3.75 | 3.75 | 16.8 | 4.96 | na |
| South Africa | −9.6 Nov | −13.5 Q3 | −4.9 | 7.17 | 6.04 | −2.0 | 9.25 | 7.79 |
| **MORE COUNTRIES** | Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | |
| Estonia | −3.3 Nov | −2.1 Nov | −11.1‡ | 12.1 | 12.8 | 0.7 | na | na |
| Finland | +11.7 Nov | +12.3 Nov | +4.0‡ | 0.77 | 0.82 | 0.5 | 3.73 | 4.06 |
| Iceland | −1.9 Nov | −3.9 Q3 | −13.3‡ | 68.7 | 61.2 | 2.1 | 15.01 | na |
| Ireland | +35.9 Oct | −6.5 Q3 | −4.8‡ | 0.77 | 0.82 | 0.4 | 3.76 | 4.05 |
| Latvia | −4.7 Nov | −3.9 Nov | −14.1‡ | 0.54 | 0.57 | −1.2 | 3.42 | na |
| Lithuania | −5.0 Nov | −3.3 Nov | −9.5‡ | 2.66 | 2.82 | −0.5 | 3.80 | na |
| Luxembourg | −5.5 Oct | +4.8 Q3 | na | 0.77 | 0.82 | −0.9 | 3.76 | na |
| New Zealand | −3.9 Nov | +6.1 Q3 | −8.5‡ | 1.43 | 1.46 | 4.1 | 6.70 | 5.95 |
| Peru | +8.5 Nov | +1.8 Q3 | +0.7 | 3.19 | 3.35 | 0.1 | 4.51 | na |
| Philippines | −4.4 Nov | +4.4 Sep | +3.1 | 48.9 | 52.5 | −0.8 | 5.63 | na |
| Portugal | −23.1 Oct | −16.9 Oct | −7.9‡ | 0.77 | 0.82 | −3.7 | 3.76 | 4.18 |
| Slovakia | −3.5 Nov | −5.4 Sep | −5.8‡ | 27.0 | 30.4 | −3.0 | 4.14 | 4.32 |
| Slovenia | −2.0 Nov | −0.9 Oct | −2.1‡ | 0.77 | 0.82 | −0.9 | na | na |

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian

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# Markets

Jan 25th 2007

Infographics

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## Markets

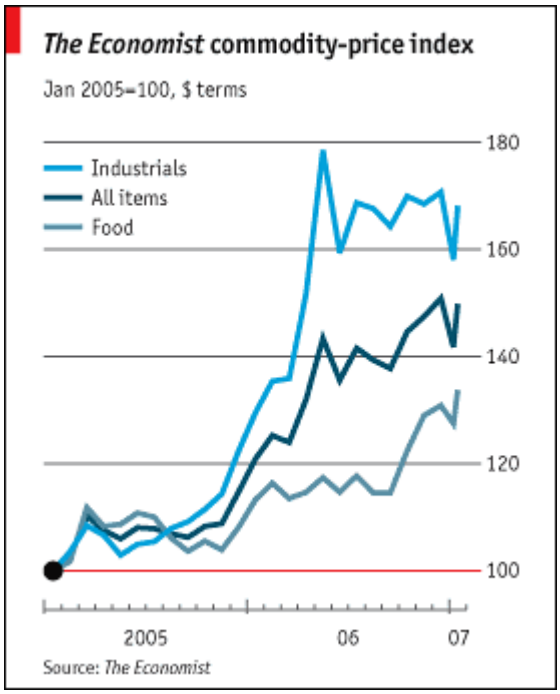
| | Index Jan 25th | % change on one week | % change on Dec 30th 2005 in local currency | % change on Dec 30th 2005 in $ terms |
|---|---|---|---|---|
| United States (DJIA) | 12,621.8 | +0.4 | +17.8 | +17.8 |
| United States (S&P 500) | 1,440.1 | +0.7 | +15.4 | +15.4 |
| United States (NAScomp) | 2,466.3 | –0.5 | +11.8 | +11.8 |
| Japan (Nikkei 225) | 17,507.4 | +1.4 | +8.7 | +6.0 |
| Japan (Topix) | 1,738.6 | +1.9 | +5.4 | +2.8 |
| China (SSEA) | 3,125.4 | +7.0 | +156.0 | +165.8 |
| China (SSEB, $ terms) | 177.8 | +10.5 | +176.1 | +186.7 |
| Britain (FTSE 100) | 6,314.8 | +1.8 | +12.4 | +28.4 |
| Canada (S&P TSX) | 13,010.7 | +2.2 | +15.4 | +14.0 |
| Euro area (FTSE Euro 100) | 1,304.9 | +1.2 | +19.8 | +31.7 |
| Euro area (DJ STOXX 50) | 4,187.5 | +1.0 | +17.0 | +28.6 |
| Austria (ATX) | 4,462.5 | +2.2 | +21.7 | +33.8 |
| Belgium (Bel 20) | 4,465.2 | nil | +25.8 | +38.3 |
| France (CAC 40) | 5,638.1 | +1.4 | +19.6 | +31.4 |
| Germany (DAX)* | 6,748.4 | +0.7 | +24.8 | +37.1 |
| Greece (Athex Comp) | 4,698.2 | +1.8 | +28.2 | +40.9 |
| Italy (S&P/MIB) | 42,566.0 | +2.0 | +19.2 | +31.0 |
| Netherlands (AEX) | 506.6 | +0.3 | +16.0 | +27.5 |
| Spain (Madrid SE) | 1,610.5 | +1.7 | +39.3 | +53.1 |
| Czech Republic (PX) | 1,659.8 | +3.1 | +12.7 | +28.2 |
| Denmark (OMXCB) | 441.9 | +1.7 | +20.1 | +32.1 |
| Hungary (BUX) | 24,217.9 | +0.7 | +16.5 | +27.2 |
| Norway (OSEAX) | 521.4 | +4.5 | +38.4 | +47.5 |
| Poland (WIG) | 53,681.5 | +2.5 | +50.8 | +63.9 |
| Russia (RTS, $ terms) | 1,861.5 | +2.8 | +52.6 | +65.4 |
| Sweden (Aff.Gen) | 375.3 | +0.4 | +27.9 | +45.5 |
| Switzerland (SMI) | 9,153.1 | +0.5 | +20.7 | +27.4 |
| Turkey (ISE) | 42,035.5 | +7.2 | +5.7 | +0.8 |
| Australia (All Ord.) | 5,749.1 | +2.2 | +22.1 | +30.2 |
| Hong Kong (Hang Seng) | 20,821.1 | +3.8 | +40.0 | +39.1 |
| India (BSE) | 14,110.5 | –0.1 | +50.1 | +52.7 |
| Indonesia (JSX) | 1,805.7 | +2.7 | +55.3 | +68.4 |
| Malaysia (KLSE) | 1,183.0 | +3.8 | +31.5 | +42.0 |
| Pakistan (KSE) | 10,856.7 | +2.3 | +13.6 | +11.8 |
| Singapore (STI) | 3,150.2 | +3.7 | +34.2 | +45.3 |
| South Korea (KOSPI) | 1,383.1 | +0.3 | +0.3 | +8.3 |
| Taiwan (TWI) | 7,935.5 | +1.3 | +21.2 | +21.3 |
| Thailand (SET) | 657.2 | +0.9 | –7.9 | +7.5 |
| Argentina (MERV) | 2,070.6 | +0.7 | +34.2 | +31.1 |
| Brazil (BSVP) | 44,686.0 | +4.6 | +33.6 | +46.5 |
| Chile (IGPA) | 12,950.7 | +2.7 | +40.7 | +33.5 |
| Colombia (IGBC) | 10,741.2 | –1.0 | +12.9 | +14.3 |
| Mexico (IPC) | 27,338.3 | +2.9 | +53.6 | +49.2 |
| Venezuela (IBC) | 42,891.9 | –4.4 | +110.3 | +24.5 |
| Egypt (Hermes) | 59,580.0 | –2.6 | +7.6 | +8.3 |
| Israel (TA-100) | 955.2 | +1.3 | +15.4 | +25.5 |
| Saudi Arabia (Tadawul) | 6,987.9 | –3.2 | –58.2 | –58.2 |
| South Africa (JSE AS) | 25,444.3 | +1.9 | +40.6 | +24.4 |
| Europe (FTSEurofirst 300) | 1,528.0 | +1.2 | +19.8 | +31.7 |
| World, dev'd (MSCI) | 1,506.0 | +1.0 | +19.7 | +19.7 |
| Emerging markets (MSCI) | 915.9 | +2.5 | +29.6 | +29.6 |
| World, all (MSCI) | 373.0 | +1.1 | +20.5 | +20.5 |
| World bonds (Citigroup) | 649.8 | nil | +4.7 | +4.7 |
| EMBI+ (JPMorgan) | 407.0 | –0.2 | +10.4 | +10.4 |
| Hedge funds (HFRX) | 1,290.1 | +0.2 | +10.5 | +10.5 |
| Volatility, US (VIX) | 9.9 | 10.6 | 12.1 | (levels) |
| CDSs, Eur (iTRAXX)† | 20.9 | –2.3 | –43.2 | –37.6 |
| CDSs, N Am (CDX)† | 26.9 | –6.1 | –41.7 | –41.7 |
| Carbon trading (EU ETS) € | 3.70 | –10.0 | –82.5 | –80.7 |

*Total return index. †Credit-default swap spreads, basis points.

**Sources:** National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Mark Leumile-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

# The Economist commodity-price index

Jan 25th 2007
From The Economist print edition




The boom in commodity prices is not over yet. After a sharp sell-off by speculative funds earlier this month, prices are rising again. Led by soaring grain prices, our food index is at its highest for a decade. World grain stocks at the end of the season will be the lowest for nearly 30 years, thanks to rising demand and smaller harvests, notably in drought-stricken Australia. Coffee prices are the highest for eight years, after stocks in exporting countries fell by 31% in the year to October. Copper has fallen by a third from its peak in May, but nickel and tin reached record highs this week. Nickel stocks are critically low and strikes are threatened at mines in Canada. Wool prices in Australia have risen by 38% in a year.

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